

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: March 11-14, 2014

Agenda Item 6

For:

☐ Approval

☒ Discussion

☐ Information

Public Sector Specific Financial Instruments

Objective of Agenda Item

1. The objective of the session is to consider the issues identified in the Issues Paper and provide directions on the further development of this project.

Material Presented

Agenda Item 6.1 Draft Issues Paper Public Sector Specific Financial Instruments

Action Requested

2. The IPSASB is asked to consider the issues paper and provide direction on how the issues identified in the paper, and any further issues identified by Members, should be addressed. In particular, Members are asked to consider the research on use of IPSAS by central banks and the view of some TGB members on the appropriateness of the IPSASB proceeding to develop guidance in this area independently.

Objectives of Agenda Item

1. To identify key issues related to public sector specific financial instruments.

Material Presented

Agenda Item 6.1 Draft Issues Paper Public Sector Specific Financial Instruments

Background

2. The IPSASB approved a project brief on Public Sector Specific Financial Instruments at the December 2013 meeting in Ottawa, Canada. The IPSASB decided that the project should start with a research phase to determine if the issues identified are complete and appropriate. The research phase of the project will continue until the issuance of a revised project brief and a consultation paper. This draft has been reviewed by the Task Based Group who, along with staff, would appreciate input from members on the issues discussed.
3. This issues paper will report research findings on the following issues:
 - (a) Central banks' use of IPSAS;
 - (b) Currency and coin in circulation;
 - (c) Monetary gold; and
 - (d) Special Drawing Rights (SDRs) and membership in the International Monetary Fund (IMF).
4. Based on broad areas the IPSASB identified, the research phase will consider the following general issues:
 - (a) The need for a deeper understanding of the technical accounting for the identified issues and the variation in accounting for the topics reviewed;
 - (b) Nature of and accounting for reserve assets (particularly monetary gold);
 - (c) Application of IPSASs by central banks; and
 - (d) Whether the IPSASB is the right standard-setter to lead such a project.
5. Staff will address the issues of statutory receivables and payables (including securitization schemes in the public sector) in June.
6. The IPSASB agreed to add one or two individuals to the current TBG to create a task force. Staff and the TBG are currently identifying appropriate individuals; including ideally an individual(s) with experience accounting for issues related to central banks.

Use of IPSAS by Central Banks

7. At the December 2013 meeting, IPSASB members noted it would be useful to know how many central banks use IPSAS. Staff examined 21 sets of central bank financial statements to ascertain which accounting standards these entities apply. Staff considered if any central banks that apply standards other than IPSASs are consolidated at the whole of government accounts level and, if so, whether this higher level reporting entity uses IPSASs.

8. A summary of the accounting standards applied by the sample of central banks is in Appendix A, table A.1. None of the central banks selected currently apply IPSAS. However, the Royal Bank of New Zealand (RBNZ) will apply New Zealand (NZ) IPSAS from July 1, 2014.
9. NZ IPSAS will be applied to Public Benefit Entities (PBEs) from July 1, 2014 and the first set of statements will be issued for the period ending June 30, 2015¹. NZ IPSAS have been modified from IPSAS to minimize differences between NZ IFRS and NZ IPSAS where possible. The most significant adjustment from IPSAS to NZ IPSAS was made to allow the IFRS notion of Other Comprehensive Income².
10. The June 30, 2013 financial statements of the RBNZ apply NZ IFRS, which is similar to IFRS. The financial statements note explicitly, that application of NZ IPSAS will not result in a significant impact after transition.
11. Some central banks are consolidated at the whole of government accounts level. For example, the UK whole of government accounts, consolidate the Bank of England³ and are prepared in accordance with IFRS as adopted for the public sector, which is broadly consistent with IPSAS. Staff did not note any information in the whole of government accounts indicating any significant consolidation adjustments related to the Bank of England or related to any of the issues discussed in this paper.
12. Based on staff research it is clear that the use of IPSAS by central banks (at the central bank entity level or at the whole of government accounts level) is very limited at this time. The banks sampled use IFRS or national standards⁴.
13. IFRS is used or influences the reporting framework for many of the central banks in Appendix A, table A.1. This has caused some TBG members to question the IPSASB's approach to this project, suggesting instead that the IASB be approached to understand their views on the central bank issues and discuss the possibility of a joint project. Some TBG members expressed concerns as to whether the IPSASB can succeed in achieving consistency in financial reporting for the central bank accounting issues without the participation of the IASB.
14. Staff has liaised with IASB staff and the IASB does not currently have a research project on accounting for central banks. Staff is not aware of any current intention to initiate a project. However, Paul Pacter, a former member of the IASB, has recently carried out research for the IMF on the accounting standards used by central banks. He is also leading the IASB's project on the application of IFRSs in different countries. Staff is of the understanding that the focus of his work for the IASB is broad and does not specifically include accounting by central banks.

¹ For New Zealand PBEs, the date of transition is July 1, 2014 and the first annual reporting period will be June 30, 2015. As comparative information is required the new requirements will effectively be applied from July 1, 2013.

² Information obtained from the Deloitte IASplus website and the New Zealand XRB, respectively <http://www.iasplus.com/en/news/2013/05/nz-pbe> and http://xrb.govt.nz/Site/Accounting_Standards/Current_Standards/Standards_for_Public_Sector_PBEs/Standards_after_1_July_14/default.aspx

³ The UK Whole of Government accounts for March 31, 2012 fully consolidate the Bank of England, as evidenced in note 1.3—Reporting entities.

⁴ Many central banks use nationally developed standards for their financial reporting frameworks, which in some cases are based on IFRS or have used IFRS for guidance in developing standards.

Matter(s) for Consideration

1. The IPSASB is asked to **note** the information on use of IPSAS by central banks and provide direction to staff on the following:
 - Are members aware of any central banks using IPSASs;
 - Given the limited use of IPSAS by central banks, is the IPSASB the appropriate standard setter to lead a project on central bank accounting issues; and
 - How does the IPSASB believe the project should proceed?

Currency and coin in circulation

Accounting for currency and coin in circulation

15. All 21 central bank financial statements examined, as summarized in Appendix B, table B.1, recognized a liability for currency in circulation at the face value of currency issued. In most instances it was explicitly stated the liability recognized was for banknotes in circulation or the statements were silent on this, and staff assumed the liability relates to banknotes.
16. Eight banks recognized a liability for coins in circulation, and disclosed this policy. Eight banks did not recognize a liability for coins in circulation. For the other five banks It is unclear whether the liability for currency in circulation was for banknotes only, or if coins were also included.
17. Although laws vary by jurisdiction, central banks recognize a liability for banknotes in circulation because they are generally responsible for issuing and maintaining legal tender for the country or region represented.
18. The variability in the accounting for coins in circulation is because some jurisdictions are not required to exchange damaged coins in circulation with coins of equal value. For example, the laws related to currency in Canada require that the central banks maintain banknotes in circulation by exchanging dirty or damaged banknotes for new notes, but do not require doing so for coins. Therefore, a liability is only recognized if there is an obligation to exchange banknotes and/or coins.
19. A further issue is whether income is recognized when new banknotes are printed or coins minted. Seigniorage is the term used to describe earning revenue from the issue of money by an entity with the mandate for doing so.
20. Depending on whether a liability is recognized, revenue earned on issuing money differs. Generally, seigniorage for banknotes is earned indirectly. This is because issuing new money, for which a liability is recognized, is a statement of financial position transaction, where the face value of the cash is recognized along with an offsetting liability. The central bank generally uses that new cash to purchase securities, usually securities of the national government. The securities purchased are generally fixed income securities that pay interest. Revenue (seigniorage) generates from interest income earned on the securities, which is indirectly the income earned from issuing new money.
21. When the central bank issues coins and it is not obligated to maintain those coins, a liability is not recognized. Instead, the bank recognizes seigniorage revenue equal to the face value of the new coins.
22. The above analysis raises the issue of whether a liability for currency and coin issued should be recognized when the country's currency act requires maintenance of the currency supply. If a legal obligation to maintain currency is not present, a present obligation may also arise from a

constructive obligation. Whether the liability is legal or constructive, the issue is whether the liability is a financial liability under IPSAS?

23. All of the central banks sampled recognize a liability of some sort for currency in circulation. The variability in accounting for currency in circulation relates to whether the liability is a financial liability. Of the banks sampled, five considered the liability to be a financial liability⁵, 10 considered the liability a non-financial liability⁶. For the remaining six banks, it was unclear if the liability recognized was considered financial or non-financial⁷. The IPSASB definition of a financial asset specifically notes that cash is a financial asset. However, the definition of a financial liability does not specifically indicate that the entity issuing cash recognizes a liability. The IPSAS definitions state that a financial liability is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable. Whether there is a financial liability depends on whether the issuance of currency is considered a contractual transaction. Based on research most countries have laws and/or regulations requiring central banks to maintain currency and to exchange damaged notes in circulation with new notes (and sometimes coins as well). However, it is unclear whether cash can be considered a contract and the answer to this may differ by country based on the actual information printed on notes and coins and the regulations in the each jurisdiction.
24. The requirements and guidance in the Government Finance Statistics Manual 2001 (GFSM) and the System of National Accounts 2008 (SNA), were also considered for accounting for currency and coin in circulation.
25. GFSM notes that the issuance of coins or notes is a financial transaction that does not result in revenue or expense. Coins and notes are issued by either the central bank or government units and are a liability of the units that issue them. SNA also requires that banknotes and coins are treated as liabilities at full face value and that the cost of producing the physical notes and coins is recognized as government expenditure and not netted against the receipts from issuing the currency. The requirements of GFSM and SNA, for banknotes are consistent with the practices of the central banks reviewed. However, there is some variability in accounting for coins, as not all central banks or the related national governments recognize a liability for coins in circulation or revenue for coins when issued.

Matter(s) for Consideration

2. The IPSASB is asked to **note** the information on currency in circulation and provide direction to staff on the following:
 - Whether members are aware of other accounting practices;
 - The most appropriate method for accounting for currency in circulation; and
 - Future research.

⁵ This was evidenced by noting currency in circulation described as a financial liability in the accounting policies or included in a financial instruments disclosure in the financial statement notes.

⁶ This was evidenced by noting the absence of the currency in circulation in the financial instruments disclosures in the financial statements.

⁷ This was evidenced by the lack of disclosure in the financial statements distinguishing financial and non-financial assets and liabilities or simply an overall lack of disclosure limiting the ability to make a distinction.

Monetary Gold

Information on the nature of monetary gold reserve assets

26. The IPSASB specifically asked for a better understanding of how monetary gold is defined. There is limited information on the nature of monetary gold holdings of central banks disclosed in their financial statements. Therefore, staff researched information available through the World Gold Council (WGC), GFSM and SNA to understand how monetary gold is defined as well as its history and importance as a reserve asset.
27. Monetary gold has a long history as a reserve asset and remains important for central banks and the monetary system. Historically, currency was made from precious metals (gold, silver). As economies advanced, paper money became more prevalent; however, paper money typically would be directly backed or exchangeable for a fixed amount of a precious metal (usually gold or silver). From the 1870's until the end of the First World War, major trading countries fixed their currencies to gold at a constant unchanging rate under the international gold system. As economies developed and the monetary system evolved from 1944 to the early 1970's the Bretton Woods system developed as the IMF came into being. Under the Bretton Woods system all currencies of IMF members were set at a fixed rate of exchange to the US dollar, which was backed and convertible to gold at US\$35 per ounce. This system lasted until the early 1970's when the US allowed the dollar to float versus other currencies. The decision to allow the US dollar to float, also led to the end of it being convertible to gold and the beginning of the current system of fiat currencies⁸.
28. The WGC, a London based organization with an objective of promoting gold and gold products, notes that gold remains an important reserve asset for central banks. This is because of its strength as a medium of exchange, the international market to trade it and its intrinsic value. Monetary gold remains the third highest reserve asset held by value by central banks after US dollars and Euros⁹.
29. Central banks hold physical gold as well as securities products related to gold as reserve assets. Gold securities products (gold instruments), are available globally and traded in large volumes and on all major stock markets. The legal form of these instruments varies, as do the products available. However, these securities products are contractual in nature, which is the key difference compared to physical gold. Central banks hold physical gold to help diversify reserve assets and to provide stability to the monetary system. Physical gold has intrinsic value and is unique amongst strategic reserve assets, such as foreign currency reserves, which derive value by being an accepted medium of exchange (void of actual underlying value). Physical gold remains an important strategic reserve for governments and central banks.
30. According to the WGC the majority of central banks purchase gold directly from bullion banks or buy domestic mine production or locally recycled gold. Typically, the purchase of gold bars occurs in the global over the counter market, with trades settled via gold bars stored in London. Because of this a global standard of London Good Delivery (LGD) bars has been established and form the basis of this market. These physical gold bars must be at least 995 parts gold out of 1000 (995/1000) and weigh between 350 and 430 fine ounces. The bars must also meet other conditions of the London Bullion Market Association. Central banks which purchase local mine production will

⁸ Fiat currencies are money that is intrinsically without value, but derives value as an accepted medium of exchange.

⁹ Information sourced from the WGC website which includes information on government affairs:
http://www.gold.org/government_affairs/gold_as_a_monetary_asset/role_in_international_monetary_system/

typically have the gold refined up to international standards (LGD) if not already in this state. Often gold reserves will be held on behalf of central banks with international custodians, the largest of which are the Federal Reserve Bank of New York and the Bank of England.¹⁰

GFSM and SNA information on monetary gold

31. The GFSM manual defines monetary gold as gold coins, ingots, and bars with a purity of at least 995 parts per thousand (995/1000) which are owned by units that have monetary authority functions and are a component of the nation's official reserve assets. GFSM considers monetary gold a financial asset for which there is no corresponding liability on the part of another unit. It is valued at the current price established in organized markets or in bilateral arrangements between monetary authorities. Further, any gold held by a government unit that does not satisfy the definition of monetary gold is treated as a non-financial asset, either as inventory or valuables¹¹. GFSM also notes monetary gold holdings are not financial claims (not a liability of another unit), because they provide economic benefits by serving as a store of value and are used as a means of payment to settle financial claims. They are treated as financial assets.
32. SNA provides further detailed guidance noting that only gold bullion held as a reserve asset as a component of foreign reserves of international financial organizations is considered monetary gold. Gold bullion takes the form of coins, ingots, or bars with a purity of at least 995/1000. It trades on organized markets or through bilateral arrangements between central banks. Therefore, valuation of transactions is not a problem. Gold bullion held as a reserve asset is the only financial asset with no corresponding liability.
33. Monetary gold as a reserve asset should only include physical gold. Securities related to gold should not be within the scope of a standard for accounting for monetary gold, as these contractual instruments are covered by IPSAS 28–30, *Financial Instruments*.

Matter(s) for Consideration

3. The IPSASB is asked to **note** the information in regards to monetary gold as a reserve asset and provide direction to staff on the following:
 - How members believe monetary gold should be defined; and
 - Future research.

Accounting for monetary gold

34. Eighteen of the 21 central banks held monetary gold, as noted in Appendix C, table C.1. In some instances the amount of monetary gold was very significant with central banks holding as much as 13.5% of their total assets in monetary gold. An average of 5.3% of total assets was comprised of monetary gold for the banks that had gold holdings.
35. Of the banks, which hold monetary gold, five consider these to be financial assets, eight consider them to be non-financial assets and for five it was not determinable based on the disclosure in the financial statements. This shows a degree of inconsistency in the financial reporting for these similar institutions.

¹⁰ Source: http://www.gold.org/government_affairs/reserve_asset_management/trading_and_vaulting_gold/

¹¹ Valuables are produced assets that are not used primarily for purposes of production or consumption but are held as stores of value over time as defined in GFSM.

36. Monetary gold, being physical in nature, does not meet the definition of a financial instrument in IPSAS 28, *Financial Instruments: Presentation*. IPSAS 28.9 states that a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Monetary gold also does not meet the definition of a financial asset in IPSAS, as it is not cash, an equity instrument of another entity or a contract to receive cash or another financial asset or equity instrument of another entity. Applying the IFRS financial instruments standards also results in monetary gold not being a financial instrument or financial asset.
37. Staff is of the view that monetary gold should be accounted in accordance with IPSAS 12, *Inventories* (which is converged with IAS 2, *Inventories*). IPSAS 12.15 states that inventory should be carried at the lower of cost and net realizable value. IPSAS 12.03 does allow for an exemption to the measurement requirements for producers of agriculture, forestry and mineral products when they measure their output at net realizable value in line with industry practices. A further exemption exists for commodity brokers who measure their inventories at fair value less cost to sell. Central banks are not producers of gold and they hold monetary gold as a strategic reserve asset and not for the purpose of trading, so neither of the exemptions would be applicable. Therefore, monetary gold (physical gold) should be valued at the lower of cost and net realizable value.
38. Twelve of the 18 central banks with monetary gold measure it at fair value, three use some variation of cost or statutory regulated price¹². Staff was not able to ascertain the measurement basis for the remaining three from the disclosures.
39. For the banks that apply fair value, there was further variation in how the changes were recognized. Five central banks recognized changes in a revaluation reserve on the statement of financial position, some of which were included with foreign currency revaluations. Three recognized changes in fair value in profit or loss and two recognized the changes in other comprehensive income. Staff was not able to ascertain how changes in value were accounted for the remaining five central banks.
40. Some banks that apply IFRS, used note disclosure to implicitly or explicitly communicate their departure from IFRS, which does not permit measurement of physical gold at fair value. One bank noted that as a reserve bank it lends gold to financial institutions participating in the gold market; it could be viewed as qualifying for the scope exemption in IAS 2.3(b), which under limited circumstances allows for broker-traders to recognize gold at fair value less costs to sell. However, given the role of central banks in ensuring stability in the financial system, this does not appear appropriate. Another institution states that monetary gold is a monetary financial asset, and notes that IFRS have not established an accounting treatment for this type of asset. Therefore, in accordance with IAS 8, *Accounting Policies, Changes in Estimates and Errors*, the institution has set an accounting policy. The policy classifies monetary gold as an available-for-sale financial asset.

Matter(s) for Consideration

4. The IPSASB is asked to **note** the information on accounting for monetary gold and provide direction to staff on the following:
- Whether members are aware of other accounting practices;

¹² The US Federal reserve records gold at \$42 2/9 US, which is the statutory price set by law.

- The most appropriate method for accounting for monetary gold; and
- Future research.

SDRs and Accounting for membership (investment) in the IMF

Information on the IMF and SDRs

41. SDRs are international reserve assets, created by the IMF in 1969 to supplement IMF member countries' official reserves. The value of a unit of SDR is based on a basket of four currencies (Euro, Japanese Yen, Pound Sterling and US Dollar). The US dollar-equivalent value of the SDR is posted daily on the IMF's website and is calculated as the sum of the specific amounts of the four basket currencies in US dollars, on the basis of exchange rates quoted at noon each day in the London market. The IMF allocates SDRs to IMF member countries based on their IMF quotas (see below). These allocations provide each member with an unconditional international reserve asset on which interest is neither earned nor paid. However, if a member's SDR holdings rise above their allocations; it earns interest on the excess. Conversely, if a member holds fewer SDRs than allocated, it pays interest on the shortfall. The IMF cannot allocate SDRs to itself or to other prescribed holders¹³.
42. The SDR is neither a currency, nor a claim on the IMF. It is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain foreign currencies in two ways, either through the arrangement of voluntary exchanges between members or by the IMF designating members with strong external positions to purchase SDRs from members with weak positions. The SDR also serves as a unit of account of the IMF and some other international organizations, in addition to its role as a supplementary reserve asset.
43. To be allocated SDRs or to participate in borrowing arrangements of the IMF, a country needs to be an IMF member. To become an IMF member a country needs to fund its quota subscription in full by paying 25% of its value in SDRs or widely accepted currencies (such as the Euro, US Dollar, Pound Sterling or Japanese Yen). The remaining balance is generally funded by a non-interest bearing demand note payable to the IMF in the member country's own currency.
44. Dealings with the IMF are usually the responsibility of the central bank. However, in some countries dealings with the IMF occur through government directly, or by the government (usually the department of finance or treasury) with the central bank as an intermediary.
45. Based on the 21 sets of central bank financial statements examined, as summarized in Appendix D, table D.1, 14 central banks were responsible for accounting for IMF related transactions. Of the remaining seven countries for which central banks were not responsible for IMF transactions; five were accounted for by a national government finance or treasury department. For the remaining two it was unclear from the financial statements publicly available who was responsible.¹⁴
46. For those countries where the central bank does not have responsibility for IMF accounting, it was not clear why this was the case. Considering the purpose of the IMF, the nature of its programs and SDRs as international reserve assets, the central bank is the most logical institution to have responsibility for managing and accounting for these items. Staff observed that in two of the cases

¹³ Prescribed holder(s) is the term used for IMF designated entities which are allowed to buy/sell SDRs.

¹⁴ This is either because of language issues (information not available in English) or as a result of lack of transparency and disclosure in the financial statements.

where the central bank does not have responsibility for IMF transactions, the GAAP (reporting framework) differs between central bank and the national government department.

Accounting for SDR assets

47. When SDRs are initially allocated to IMF members, they are granted based on the relative size of each member's economy. SDRs are granted based on being IMF quota members and do not require any consideration to be provided (other than being a member in the IMF and the initial quota subscriptions required). When SDRs are allocated, members also agree to provide financing equal to the amount of SDRs received on grant. This financing is not required to be paid to the IMF upon allocation, but the member agrees to provide that amount if called upon to do so by the IMF.
48. Sixteen of the 21 central bank financial statements examined, included both an asset and liability related to SDRs, see Appendix D, table D.2. For five of the banks it is unclear if a liability is recognized, as there is nothing presented or disclosed to identify one. The liability recognized upon grant of the SDRs is equal to the initial amount of the grant and revalued at each reporting period due to changes in the value of SDRs versus the national currency of entity. The alternative to recognizing a liability upon grant would be to record an initial gain on grant of the SDRs. The argument made for recognizing a liability, is that the agreement with the IMF requires the member to provide an equal amount of funding on call to the IMF, as granted in SDRs.
49. SDRs are neither a currency nor a claim on the IMF. SDRs are a synthetic instrument, which do not have a physical form and can only be used by members of the IMF and certain international organizations the IMF allows to participate in the SDR system. SDRs are limited in their use, with a prohibition on using SDRs to buy physical goods. SDRs are only to be used in exchange with other IMF members, usually for foreign currency to bolster reserve assets. IPSASB defines cash as cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Based on these definitions, staff is of the opinion that SDRs do not meet the definition of cash or cash equivalents. They are clearly not cash or a demand deposit (demand deposits would allow immediate conversion to cash from a bank—without an intermediary). SDRs are not cash equivalents because the limited market of IMF participants to exchange SDRs for foreign currency limits the true liquidity of the instrument.
50. IPSASs define assets as resources controlled by an entity, as a result of a past event and from which future economic benefits or service potential are expected to flow to the entity. SDRs meet the definition of an asset, as they result from a past event and from which future benefits are expected to flow to the entity (although this is not assured given the nature of the SDR market). It is less clear whether SDRs meet the definition of a financial instrument or financial asset. The definition of a financial instrument in IPSAS 28 requires a financial asset of one entity to give rise to a financial liability or equity instrument of another entity. A financial asset is either, cash, an equity instrument from another entity or a contractual right to receive cash or another financial asset from another entity or to exchange financial asset or financial liabilities under potentially favorable conditions to the entity. As noted above, an SDR is not cash or a claim on the IMF; it is an instrument that allows trading of SDRs through the IMF with other members. It is questionable whether SDRs meet the definition of a financial asset because of the following:
 - The IMF being the intermediary that the member has an agreement with, and the requirement for trading to occur through the IMF as intermediary; and
 - The restriction on use of SDRs to buy goods.

51. Nine of the 21 central banks/government departments report SDRs as financial assets, because they consider SDRs to be cash or cash equivalents¹⁵. For three of the banks it was not possible to determine how SDRs were recognized. The remaining nine recognized SDRs as assets, but it was unclear whether they classified them as financial assets. Whether reported as an asset or financial asset, they appeared to be measured based on the IMF SDR value translated to the functional currency of the entity. Because of the limited market for SDRs and the unique nature of the instrument, consideration of how to measure SDRs may be appropriate. Section 3 of the conceptual framework should be considered to determine if SDRs measured at face value, similar to cash, meet the qualitative characteristic of faithful representation.
52. Further consideration of measurement should reference IPSAS 29: *Financial Instruments: Recognition and Measurement*. IPSAS 29.51 states that the best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. IPSAS 29.AG103 notes a financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Staff propose assessing whether the SDR market meets the IPSAS description of an active market in the application guidance.

Matter(s) for Consideration

5. The IPSASB is asked to **note** the information on accounting for SDR assets and provide direction to staff on the following:
- Whether members are aware of other accounting practices;
 - The most appropriate method for accounting for SDR assets; and
 - Future research.

Accounting for SDR liabilities

53. On initial allocation of SDRs a liability is recognized equal to the value of SDR assets granted, see Appendix D, table D.2. Sixteen of the 21 banks recognized a liability for the initial SDR allocation. There is little explicit disclosure of the reasons for recognizing a liability. Five do not record a liability or it is not clear if one has been recognized.
54. Recognizing a financial liability is questionable, because, as noted above, it is doubtful whether SDRs meet the definition of a financial instrument. It may also be doubtful whether SDRs meet the definition of a liability because it is questionable whether there is a present obligation (legal or constructive) and whether there is an expectation of an outflow of resources.
55. Based on the financial statements examined a standard practice exists of recognizing a liability at the face value of SDR assets granted. Sixteen banks recognized a liability, nine of those being financial liabilities¹⁶, see Appendix D, table D.3. In two cases those liabilities were offset against other assets (such as SDRs and the quota subscription in the IMF. Offsetting is not permitted under IPSAS 1.48 which states assets and liabilities, revenue and expenses, shall not be offset unless

¹⁵ This was evidenced by noting SDRs classified as financial assets in the accounting policies or included in a financial instruments disclosure in the financial statement notes.

¹⁶ This was evidenced by noting SDR allocation liabilities described as a financial liability in the accounting policies or included in a financial instruments disclosure in the financial statement notes.

required or permitted by an IPSAS. Further, IPSAS 28.47 only allows offsetting of a financial asset and a financial liability when a current legally enforceable right exists and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

56. SNA 2008 notes that SDRs are assets with matching liabilities but the assets represent claims on the participants collectively and not on the IMF. A participant may sell some or all of its SDR holdings to another participant and receive other reserve assets, particularly foreign exchange, in return. GFSM also notes that SDRs (along with monetary gold) are exceptions as they are financial assets without a corresponding claim (liability) on other units¹⁷.

Matter(s) for Consideration

6. The IPSASB is asked to **note** the information in regards to accounting for SDR allocation liabilities and provide direction to staff on the following:
- Whether members are aware of other accounting practices;
 - The most appropriate method for accounting for SDR allocation liabilities; and
 - Future research.

Accounting for the investment in the IMF

57. Of the 21 banks/government financial statements examined, seven account for the IMF subscription as an asset, seven a financial asset and seven cannot be determined based on disclosures, or are reported as something other than an asset, see Appendix D, D.4. For example, the New Zealand discloses a contingent liability for the IMF quota subscription. The Central Bank of Kenya discloses that the IMF quota subscription has not been recognized in the financial statements¹⁸. The European Central Bank (ECB) and other central banks in Europe, which follow the guidelines of the ECB, recognize a liability for the SDR allocation separately, and an asset for the IMF quota subscription together with SDR holdings, and net of any payables owed to the IMF.
58. It is clear that most entities see the fee paid to the IMF as an asset and many classify it as a financial asset. However, overall, the disclosures related to the investment in the IMF were limited. If guidance is developed, further analysis of the IMF member quota agreement (assuming all agreements are standard) is needed to understand the extent to which IPSAS 28–30 and IPSAS 6–8 cover accounting for such agreements.

Matter(s) for Consideration

7. The IPSASB is asked to **note** the information in regards to IMF Quota subscriptions and provide direction to staff on the following:
- Whether members are aware of other accounting practices;
 - The most appropriate method for accounting for the IMF Quota subscriptions; and
 - Future research.

¹⁷ GFSM states that financial assets are mainly claims on other institutional units and therefore have counterpart liabilities (except for monetary gold and SDRs).

¹⁸ An explanation for the exclusion from the financial statements of the Central Bank of Kenya has not been disclosed.

Appendix A – Central Bank Reporting Frameworks

Table A.1

<i>Central bank name</i>	<i>Period end</i>	<i>Financial reporting framework</i>
Reserve Bank of Australia ¹⁹	30 June	IFRS
Banco Central do Brasil ^x	31 December	IFRS
Bulgarian National Bank ^x	31 December	IFRS as adopted by the EU
Bank of Canada ^x	31 December	IFRS
Central Bank of Chile ^x	31 December	Policies of presentation and preparation of financial reports of Central Bank of Chile, consistent with IFRS, with disclosed exceptions
European Central Bank ^x	31 December	Accounting policies that the Governing Council of the ECB considers to be appropriate to the nature of central bank activity (Decision ECB/2010/21 of 11 November 2010, OJ L 35, 9.2.2011)
Bank of England ^x	28 February	Banking Department: Companies Act and the measurement and recognition requirements of IFRS as adopted by the EU. IFRS and the Companies Act have been used as a model for presentation and disclosure Issue Department: Currency and Bank Notes Act 1928 and the National Loans Act 1968
Banque de France ^x	31 December	Financial statements template set by Order of the Minister of the Economy, Finance and Industry. Accounting and valuation methods laid down by the Monetary and Financial Code including the methods set by the Governing Council of the ECB
Deutsche Bundesbank ^x	31 December	Section 26 and 27 of the Bundesbank Act and the “accounting principles of the Deutsche Bundesbank”, which are the principles adopted by the Governing Council of the ECB
Reserve Bank of India ^x	30 June	Reserve Bank of India Act
Bank of Israel ^x	31 December	Israeli GAAP, adapted for the special activity of a central bank and consistent with practice of other central banks
Central Bank of Kenya ^x	30 June	IFRS
Bank of Mauritius ^x	30 June	IFRS
Reserve Bank of New Zealand ⁺	30 June	New Zealand IFRS
Bank of Russia ^x	1 January	Federal Law On the Bank of Russia, Federal Law On Accounting, and Bank of Russia regulations
South African Reserve Bank ^x	31 March	South African Reserve Bank Act, consistent with IFRS with disclosed exceptions
Swiss National Bank ^x	31 December	National Bank Act and the Swiss Code of Obligations
Federal Reserve Banks ^x	31 December	Accounting principles documented in the Financial Accounting Manual for Federal Reserve Banks
Bank Negara Malaysia ⁺ ²⁰	31 December	Central Bank of Malaysia Act 2009 and MFRS
Bank of Japan [≠] ²¹	31 March	Bank of Japan Act and generally accepted principles of corporate accounting
Monetary Authority of Singapore ⁺	31 March	Monetary Authority of Singapore Act, Currency Act and the Singapore Financial Reporting Standards

¹⁹ ^x Source: *Current trends in central bank financial reporting practices*, October 2012, KPMG

²⁰ ⁺ Source: *Central bank financial statements*

²¹ [≠] Source: *Accounting rules of the Bank of Japan*

Appendix B – Summary of Accounting Policies – Currency and Coin in Circulation

Table B.1

	Does the central bank recognize a liability for currency in circulation?			Does the central bank recognize a liability for coins in circulation?			Is the liability recognized considered a financial liability?		
	Yes	No	Unclear	Yes	No	Unclear	Yes	No	Unclear
Reserve Bank of Australia	X				X		X		
Banco Central do Brasil	X			X				X	
Bulgarian National Bank	X			X				X	
Bank of Canada	X				X		X		
Central Bank of Chile	X			X				X	
European Central Bank	X				X				X
Bank of England	X				X			X	
Banque de France	X				X				X
Deutsche Bundesbank	X				X				X
Reserve Bank of India	X					X			X
Bank of Israel	X			X				X	
Central Bank of Kenya	X			X			X		
Bank of Mauritius	X			X				X	
Reserve Bank of New Zealand	X					X	X		
Bank of Russia	X					X		X	
South African Reserve Bank	X			X			X		
Swiss National Bank	X				X			X	
Federal Reserve Banks	X				X			X	
Bank Negara Malaysia	X			X					X
Bank of Japan	X					X			X
Monetary Authority of Singapore	X					X		X	
Total	21	0	0	8	8	5	5	10	6
Percentage	100%	0%	0%	38%	38%	24%	24%	48%	29%

Appendix C – Summary of Accounting Policies – Monetary Gold

Table C.1

	Does the central bank have monetary gold?		Does the central bank consider monetary gold to be a financial asset?			How do the central banks value monetary gold?	
	Yes	No	Yes	No	Unclear	Measurement basis	Revaluations Recognized In?
Reserve Bank of Australia	X			X		Fair Value	Reserve - OCI
Banco Central do Brasil	X		X			Fair Value	Reserve - OCI
Bulgarian National Bank	X		X			Fair Value	Profit and Loss
Bank of Canada		X	N/A			N/A	N/A
Central Bank of Chile	X				X	Fair Value	Not Clear
European Central Bank	X			X		Fair Value	Foreign Exchange and Gold Revaluation Provision - Balance Sheet
Bank of England	X			X		Fair Value	Foreign Exchange and Gold Revaluation Provision - Balance Sheet
Banque de France	X			X		Fair Value	Foreign Exchange and Gold Revaluation Provision - Balance Sheet
Deutsche Bundesbank	X			X		Fair Value	Foreign Exchange and Gold Revaluation Provision - Balance Sheet
Reserve Bank of India	X				X	Fair Value	Unclear
Bank of Israel		X	N/A			N/A	N/A
Central Bank of Kenya	X		X			Amortized Cost	Unclear
Bank of Mauritius	X		X			Fair Value	Profit and Loss
Reserve Bank of New Zealand		X	N/A			N/A	N/A
Bank of Russia	X			X		Historical Cost	N/A
South African Reserve Bank	X		X			Statutory Price - Fair Value	Valuation Reserve - Balance Sheet
Swiss National Bank	X			X		Fair Value	Profit and Loss
Federal Reserve Banks	X			X		Statutory Price - \$42 2/9 per fine troy ounce	N/A
Bank Negara Malaysia	X				X	Not clear	Not clear
Bank of Japan	X				X	Not clear	Not clear
Monetary Authority of Singapore	X				X	Historical Cost	N/A
Total	18	3	5	8	5		
Percentage	86%	14%	24%	38%	24%		

Note: The central bank financial statements use various terms to describe their financial statements. Therefore, the terms Balance Sheet, Profit and Loss and Other Comprehensive Income are used in the analysis above, to represent what would be the Statement of Financial Position, Statement of Operations and Statement of Changes in Net Assets/Equity, respectively, as defined in IPSAS 1, *Presentation in Financial Statements*.

Appendix D – Summary of Accounting Policies – SDR and Investment in the IMF

Table D.1

<i>Where are SDRs and IMF Subscriptions Accounted for by members?</i>		
	<i>At the Central Bank?</i>	<i>If not the central bank - are the accounting standards applied different from the central bank?</i>
Reserve Bank of Australia	No - Accounted for in Australian Treasury.	Same GAAP - AAS
Banco Central do Brasil	Yes	N/A
Bulgarian National Bank	Yes	N/A
Bank of Canada	No - Accounted for in Canadian Department of Finance.	Different - Canadian Public Sector Accounting Standards.
Central Bank of Chile	Yes	N/A
European Central Bank	Yes	N/A
Bank of England	No - Held in the Exchange Equalisation Account (EEA). Information reported in the UK whole of government accounts.	Different - IFRS as adopted in the EU, adapted for the public sector, in accordance with the Government Financial Reporting Manual.
Banque de France	Yes	N/A
Deutsche Bundesbank	Yes	N/A
Reserve Bank of India	No - Government of India	Unclear
Bank of Israel	Yes	N/A
Central Bank of Kenya	Yes	N/A
Bank of Mauritius	Yes	N/A
Reserve Bank of New Zealand	No - New Zealand treasury	Same - NZ IFRS as appropriate for PBEs
Bank of Russia	Yes	N/A
South African Reserve Bank	Unclear	Unclear
Swiss National Bank	Yes	N/A
Federal Reserve Banks	Yes	N/A
Bank Negara Malaysia	Yes	N/A
Bank of Japan	Unclear	Unclear
Monetary Authority of Singapore	Yes	N/A
Yes	14	
No/Unclear	7	

Appendix D – Summary of Accounting Policies – SDR and Investment in the IMF

Table D.2

	<i>Is there an asset and liability recognized for SDRs?</i>
Reserve Bank of Australia	Yes
Banco Central do Brasil	Yes
Bulgarian National Bank	Yes
Bank of Canada	Yes
Central Bank of Chile	Yes
European Central Bank	Yes
Bank of England	Yes
Banque de France	Yes
Deutsche Bundesbank	Yes
Reserve Bank of India	Unclear
Bank of Israel	Yes
Central Bank of Kenya	Yes
Bank of Mauritius	Yes
Reserve Bank of New Zealand	Unclear
Bank of Russia	Yes
South African Reserve Bank	Unclear
Swiss National Bank	Yes
Federal Reserve Banks	Unclear
Bank Negara Malaysia	Yes
Bank of Japan	Unclear
Monetary Authority of Singapore	Yes
<i>Yes</i>	<i>16</i>
<i>Unclear</i>	<i>5</i>

Appendix D – Summary of Accounting Policies – SDR and Investment in the IMF

Table D.3

	<i>What type of asset and liability are recognized for SDRs?</i>	
	<i>Type of liability</i>	<i>Type of asset</i>
Reserve Bank of Australia	Financial Liability	Financial Asset
Banco Central do Brasil	Financial Liability	Financial Asset
Bulgarian National Bank	Financial Liability	Financial Asset
Bank of Canada	Financial Liability	Financial Asset
Central Bank of Chile	Financial Liability	Financial Asset
European Central Bank	Liability	Asset
Bank of England	Financial Liability	Financial Asset
Banque de France	Liability	Asset
Deutsche Bundesbank	Liability	Asset
Reserve Bank of India	Unclear	Unclear
Bank of Israel	Liability	Asset
Central Bank of Kenya	Financial Liability - together with SDR allocation	Financial Assets
Bank of Mauritius	Liability	Asset
Reserve Bank of New Zealand	Unclear	Financial Asset
Bank of Russia	Liability - together with SDR allocation, promissory note and other balances with IMF.	Asset - SDRs and Quota combined
South African Reserve Bank	Unclear	Unclear
Swiss National Bank	Liability	Asset
Federal Reserve Banks	Unclear	Asset
Bank Negara Malaysia	Liability	Asset
Bank of Japan	Unclear	Unclear
Monetary Authority of Singapore	Liability	Financial Asset
<i>Asset</i>	-	9
<i>Financial Asset</i>	-	9
<i>Liability</i>	9	-
<i>Financial Liability</i>	7	-
<i>Unclear/Other</i>	5	3

Appendix D – Summary of Accounting Policies – SDR and Investment in the IMF

Table D.4

	<i>How is the investment/Subscription Quota in IMF accounted for?</i>
Reserve Bank of Australia	Financial Asset
Banco Central do Brasil	Financial Asset
Bulgarian National Bank	Financial Asset
Bank of Canada	Asset - Investment - held in foreign exchange account.
Central Bank of Chile	Financial Asset
European Central Bank	Asset - together with SDRs IMF receivables/payables (but not including the IMF SDR allocation liability)
Bank of England	Financial Asset
Banque de France	Asset - together with SDRs IMF receivables/payables (but not including the IMF SDR allocation liability)
Deutsche Bundesbank	Asset - together with SDRs IMF receivables/payables (but not including the IMF SDR allocation liability)
Reserve Bank of India	Unclear
Bank of Israel	Financial Asset (Net of any liabilities / Deposits to/from IMF)
Central Bank of Kenya	Other - Quota has not been accounted for in the financial statements per note 11
Bank of Mauritius	Unclear
Reserve Bank of New Zealand	Other - IMF promissory note - considered to be a contingent liability
Bank of Russia	Asset - IMF Quota and SDRs combined in one line item
South African Reserve Bank	Unclear
Swiss National Bank	Asset - combined with borrowings provided to IMF under New Arrangement to Borrow.
Federal Reserve Banks	Unclear
Bank Negara Malaysia	Asset - portion paid by promissory note listed as a commitment
Bank of Japan	Unclear
Monetary Authority of Singapore	Financial Asset
<i>Asset</i>	7
<i>Financial Asset</i>	7
<i>Liability</i>	-
<i>Financial Liability</i>	-
<i>Unclear/Other</i>	7