

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Brussels, Belgium

Meeting Date: September 15-18, 2014

Agenda Item 9

For:

☐ Approval

☒ Discussion

☐ Information

Public Sector Specific Financial Instruments

Objective of Agenda Item

1. To identify key issues related to public sector specific financial instruments draft chapters of the Consultation Paper (CP).
2. To provide directions on the way forward on the issues identified and the draft chapter 1: monetary gold of the CP.

Material Presented

Agenda Item 9.1: Draft Issues Paper, Public Sector Specific Financial Instruments

Agenda Item 9.2: Introduction and Draft Chapter 1: monetary gold of the Public Sector Specific Financial Instruments CP.

Action Requested

1. The IPSASB is asked to consider the Issues Paper and provide direction on further development of the draft chapters presented in the CP.

Objectives of Issues Paper

1. The aim of this Issues Paper is to highlight key issues related to the draft Consultation Paper (CP) on Public Sector Specific Financial Instruments.
2. To provide directions on the way forward of the draft chapters of the CP presented; Introduction and Objective and monetary gold for further development of the CP.

Background

3. 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 CP.
4. Staff presented an Issues Paper at the March 2014 and June 2014 meeting discussing the following issues:
 - (a) Central banks' use of IPSAS;
 - (b) Currency and coin in circulation;
 - (c) Monetary gold;
 - (d) Special Drawing Rights (SDRs) and membership in the International Monetary Fund (IMF);
 - (e) Statutory receivables;
 - (f) Statutory payables; and
 - (g) Securitization Schemes in the public sector.
5. This Issues Paper highlights initial decisions by the IPSASB and initial drafting of the CP to confirm the approach.

Approach to the CP

6. In June 2014 the IPSASB directed staff to develop a comprehensive CP covering all topics discussed in previous Issues Papers in March and June of 2014. Further, it was noted that staff should begin developing chapters and bring to the board for consideration.
7. Staff has started drafting the CP and proposes the following structure of the CP:
 - (a) Introduction and Objective
 - (b) Chapter 1: Monetary Gold
 - (c) Chapter 2: Statutory Receivables
 - (d) Chapter 3: Statutory Payables
 - (e) Chapter 4: Securitizations
 - (f) Chapter 5: Currency and Coin Issued by the Entity; and
 - (g) Chapter 6: IMF Special Drawing Rights and Other IMF Transactions.

Matter(s) for Consideration

1. The IPSASB is asked to confirm the setup and organization of the CP including the split of chapters and topics.

Draft CP Chapter 1: Monetary Gold

8. As highlighted in the March 2014 Issues Paper there is inconsistency in accounting for monetary gold, relating primarily to measurement, with some entities accounting for it at historical cost, with others at fair value/current value.
9. Using the Conceptual Framework, a chapter has been developed for accounting for monetary gold.
10. The proposed definition of monetary gold considered the definitions and descriptions in the Government Finance Statistics Reporting Guidelines (GFS) manual and the System of National Accounts (SNA) 2008 included in the CP in paragraphs 2.8 to 2.11. The following definition is proposed for monetary gold:
 - “Gold bullion assets held by monetary authorities as reserve assets.”
11. Paragraphs 2.14–2.18 of the draft chapter provides further information and descriptions related to the definition and terms used in the definition.

Matter(s) for Consideration

2. The IPSASB is asked to provide feedback on the definition of monetary gold and the supporting descriptions in paragraphs 2.14–2.18.
12. Physical gold assets which qualify as monetary gold as defined in paragraph 2.13 of the CP, are within the scope of the proposed guidance.
13. All gold certificates, gold securities and other securities linked to gold that are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity are financial instruments and should not be in the scope of the CP on monetary gold as they should continue to be accounted for in accordance with IPSAS 28–30.
14. Physical gold held with the intention of making profits from extracting, processing and/or selling it is inventory and should be accounted for by applying IPSAS 12, *Inventories* as explained in paragraph 2.21 of the CP and excluded from the scope of monetary gold in the CP.

Matter(s) for Consideration

3. The IPSASB is asked to confirm the proposed scope of the monetary gold IPSAS in the CP.
15. Monetary gold should be initially recognized in the statement of financial position when it meets the definition of monetary gold in paragraph 2.13 and the definition of an asset in the conceptual framework.
16. Risk of uncertainty of the existence of the element and measurement are reduced as monetary gold is a tangible asset, with a global liquid market to exchange it.
17. Control can arise through acquisition of monetary gold. Control can be exercised even if gold is not directly held by the entity as explained in paragraph 2.24.

Matter(s) for Consideration

4. The IPSASB is asked to discuss and provide any further considerations for recognition which should be included in the CP.
18. Based on research presented to the board in March 2014 the key issue, is the lack of consistency in measuring monetary gold. Preparers measure monetary gold, using one of two measurement bases, historical cost or fair value/current value.
19. The nature of monetary gold and the reason it is held, indicate that a measure that provides information on financial capacity, as described in the Conceptual Framework, seems most relevant as it enables users to assess monetary authorities' abilities to provide stability and liquidity into the financial system. The CP discusses the measurement of monetary gold, considering the guidance of the Conceptual Framework, in greater depth in paragraphs 2.25–2.37.
20. An exit value is appears appropriate for monetary gold, because it provides the best information on the impact on financial capacity. Therefore, market value in an open, active and orderly market—which is non-entity specific and observable, could be used as the measurement basis of monetary gold.
21. The market value of gold is easily obtainable, given the large liquid global market for trading gold. Using market value would also be consistent with how other monetary reserve assets are measured (such as foreign currency holdings) which enhances the qualitative characteristic of comparability.
22. A question has been raised by a TBG member as to if using market value for initial recognition is appropriate, as there may be cases where initial cost of acquisition is not equal to market value, leading to the recognition of gains and losses.

Matter(s) for Consideration

5. The IPSASB is asked to discuss the use a current value measurement basis, specifically market value—in an open, active and orderly market to measure monetary gold in comparison to using historical cost.
23. As monetary gold is physical in nature, derecognition is most likely to occur when the asset is sold or transferred to another entity.
24. Any agreements entered into by an entity other than an outright sale, such as a sale of an interest, or use of gold as collateral would give rise to a financial asset of one entity and a financial liability or equity instrument of another entity which are financial instruments and should be accounted for in accordance with IPSAS 28–30.
25. Staff noted inconsistency in the reporting of changes in monetary gold subsequent to initial recognition. Some entities recognize unrealized gains/losses in the statement of financial performance, while other recognize unrealized gains and losses as a reserve in the statement of financial position or directly in net assets/equity. Paragraphs 2.40–2.43 of the CP discuss this issue.

Matter(s) for Consideration

6. The IPSASB is asked to discuss the options to recognize unrealized gains or losses due to changes in value of monetary gold:
 - As a reserve in the statement of financial position or directly in net assets/equity; and
 - Directly in the statement of performance.

26. Disclosures can be used to enhance the information available to users about monetary gold recognized by the entity. Staff proposes some disclosure requirements such as reconciliations of monetary gold both by carrying amount and physical quantity, as well as disclosure of the movement of the spot rate of gold.

Matter(s) for Consideration

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| 7. The IPSASB is asked to discuss the approach to disclosure of monetary gold in the CP. |
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1 Introduction and Objective

- 1.1 Current IPSASs do not provide specific guidance on how to account for a number of what have been termed “public sector financial instruments”. The lack of detailed guidance for these transactions leads to reporting that is inconsistent between entities and may be inappropriate. As a result, users may not be able to find the information they need for accountability and decision-making purposes. The lack of guidance on accounting for public sector specific financial instruments, is a significant gap in the IPSASB's literature.
- 1.2 This Consultation Paper (CP) is an important step in determining the appropriate reporting for public sector financial instruments. The CP considers the issues related to these instruments and the possible approaches to accounting for them. Its objective is to initiate a debate about matters such as:
- The types of instruments considered to be public sector specific financial instruments;
 - Approaches to recognition, measurement and derecognition; and
 - Presentation and disclosure of information about public sector financial instruments.

History of the Project

- 1.3 The project to develop IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement* and IPSAS 30, *Financial Instruments: Disclosures* identified several items, some of which meet the definition of a financial instrument but have characteristics which are unique to the public sector, while others do not strictly meet the definition of a financial instrument but have similar characteristics. The items identified as “public sector financial instruments” are:
- Monetary gold;
 - Special Drawing Rights;
 - Reserve positions in the IMF;
 - Currency issued by the entity;
 - Financial guarantee contracts; and
 - Concessionary loans.
- 1.4 These items were considered for inclusion in the project to develop IPSAS 28–30; however it was determined by the IPSASB that a Public Sector Specific Financial Instruments project should deal with some of these issues. In December 2013, the IPSASB approved an initial phase of a project to consider the public sector specific financial instruments identified and the development of a CP. Application guidance was developed to address concessionary loans and financial guarantee contracts in the public sector in IPSAS 28 and IPSAS 29. This approach was deemed appropriate for these instruments as they clearly meet the definitions of financial instruments¹. The guidance has been applicable since January 1, 2013.

¹ The items currently included in the public sector specific financial instruments projects do not clearly meet the definitions of financial instruments, financial assets, financial liabilities and/or equity instruments in IPSAS 28.

Approach taken in this CP

- 1.5 The Conceptual Framework was published in November 2014. This CP draws on the Framework in its analysis.
- 1.6 The CP is organized into separate chapters by topic. The IPSASB has not yet determined if the aim of the project will lead to the development of a single standard or several standards and/or additional application guidance, related to these topics. However, the IPSASB felt it important to deal with all these issues in one CP, which allows all topics to be considered by constituents at once. Not all topics will be considered to be relevant for all constituents.
- 1.7 The CP has the following structure:
 - Chapter 1: Monetary Gold;
 - Chapter 2: Statutory Receivables;
 - Chapter 3: Statutory Payables;
 - Chapter 4: Securitizations;
 - Chapter 5: Currency and Coin Issued by the Entity; and
 - Chapter 6: IMF Special Drawing Rights and Other IMF Transactions.

2 Chapter 1: Monetary Gold

Introduction

- 2.1 Monetary gold has a long history as a reserve asset and remains important for governments and 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). Physical gold played a more direct role in the financial system up until the early 1970's, when the last currency exchangeable for gold, the US dollar, was allowed to float freely. Although currencies are no longer linked to gold, many governments and central banks have physical gold holdings, because it is a medium of exchange which has intrinsic value and for which there is a global liquid market to complete transactions. Governments and central banks use monetary gold to provide stability and resilience to their monetary systems.
- 2.2 Monetary gold, is physical in nature and does not meet the definition of a financial instrument in IPSAS 28, *Financial Instruments: Presentation*², which requires a 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. Monetary gold discussed in this CP is physical in nature.
- 2.3 Instruments related to gold, which incorporate a contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity, are financial

² 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.

instruments and are not monetary gold. Some examples of the types of gold instruments which are outside the scope of this CP, because they are financial instruments are:

- (a) Gold loans—Any type of investment or lending denominated in gold or backed by gold, which will be settled in cash, or another financial asset, are financial instruments, as they are the result of a contract which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
 - (b) Any financial instruments that result in gold being traded as a commodity and for which the contract allows for settlement on a net basis rather than through the delivery of the underlying gold as these contracts give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
- 2.4 The mining, refining and selling of physical gold or gold products are not within the scope of this CP. Because the purpose and intention of holding monetary gold is to provide stability to the monetary system and is different than the intention of holding physical gold when the aim is to generate profits from by producing gold, gold products or trading gold commodities.
- 2.5 The inconsistency in accounting for monetary gold primarily relates to measurement. Central banks, governments and other international and regional entities which provide stability to the financial system measure monetary gold at either historical cost or fair value/current value.
- 2.6 For those entities that use fair value/current value, there is a further issue related to how changes in fair value are recognized. Some entities recognize changes in a reserve account on the statement of financial position, while others recognize changes in fair value directly in the statement of net assets/equity and a further group recognizes the changes in the statement of financial performance.

Scope and Definitions

- 2.7 This section of the CP addresses the scope of a future IPSAS on monetary gold. It also discusses the definitions (if any) that should be included in a future IPSAS. It has not been determined if an individual IPSAS addressing this topic or if monetary gold will be included in a composite IPSAS providing requirements and guidance in the other items discussed in this CP.

Consistency with GFS and SNA

- 2.8 The IPSASB considers it important to reduce differences with the statistical basis of reporting where appropriate. The IPSASB published the policy paper, *Process for Considering GFS Reporting Guidelines during Development of IPSASs* in February 2014³.
- 2.9 The IPSASB reviewed the Government Finance Statistics Reporting Guidelines (GFS) manual and the System of National Accounts (SNA) 2008, definitions and descriptions of monetary gold to consider whether they assist in the development of a definition of monetary gold.
- 2.10 The GFS framework describes monetary gold in section 7.92–7.94 as follows:
- (a) *Section 7.92—Monetary gold consists of gold coins, ingots, and bars with a purity of at least 995/1000 that are:*

³ <http://www.ifac.org/sites/default/files/publications/files/IPSASB-GFS-Policy-Paper.pdf>

- *Owned by units that undertake monetary authority functions; and*
 - *A component of the nation's official reserve assets. The monetary authority will normally be the central bank, but it is possible for a unit of the general government sector to undertake some functions of the monetary authority.*
- (b) *Section 7.93—Monetary gold is 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.*
- (c) *Section 7.94—Any gold held by a government unit that does not satisfy the definition of monetary gold is treated as a nonfinancial asset, either a type of inventory (612) or a valuable (613). Deposits, loans, and securities denominated in gold are treated as deposits, loans, and securities and not as monetary gold. A gold swap is treated as a loan.*

2.11 SNA 2008 describes monetary gold as follows in Chapter 11, *The Financial Account*:

- (d) *Section 11.45—Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of monetary authorities) have title and is held as a reserve asset. It comprises gold bullion (including gold held in allocated gold accounts) and unallocated gold accounts with non-residents that given title to claim the delivery of gold. All monetary gold is included in reserve assets or is held by international financial organizations. Only gold that is held as a financial asset and as a component of foreign reserves is classified as monetary gold. Therefore, except in limited institutional circumstances, gold bullion can be a financial asset only for the central bank or central government.*
- (e) *Section 11.46—Gold bullion take the form of coins, ingots, or bars with a purity of at least 995 parts per thousand; it is usually traded 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.*

Definitions and Descriptions

2.12 Drawing from the above definitions and descriptions from GFS and SNA, the IPSASB proposes the following definition (outlined in paragraph 2.13) and supporting guidance (as outlined in paragraphs 2.14 to 2.18).

2.13 **Monetary gold** is defined as follows:

“Gold bullion assets held by monetary authorities as reserve assets.”

2.14 Gold bullion assets are physical in nature, taking the form of coins, ingots or bars with a purity of 995 parts per 1000⁴. Gold which does not meet the minimum purity requirements is not considered saleable according to the “London Good Delivery” rules which are the standards followed globally by physical gold trading markets and exchanges.

⁴ The London Bullion Market Association created the London Good Delivery rules for physical gold which state that the purity of gold traded should be a minimum of 995 parts per 1000 fine gold. The London Bullion Market is the largest market for trading gold in the world and the standards it sets in terms of purity, are followed by the other markets and exchanges around the world.

- 2.15 Monetary gold is held for the purpose of providing stability and resilience to the monetary system which is unique to other physical gold holding which may be held for the purpose of trading or use in operations.⁵ Monetary authorities are generally either the central bank or central government. In limited circumstances a monetary authority may also be an international or regional entity⁶.
- 2.16 Reserve assets are those assets which are held to provide stability to the international monetary system, by the entity tasked with the role of acting as the monetary authority. Reserve assets are used by monetary authorities to achieve the following objectives:
- Affecting the currency exchange rate;
 - Maintaining confidence in the currency and economy; and
 - For foreign borrowings.
- 2.17 Reserve assets must be readily available for trading in a liquid market for cash. Monetary gold is held by monetary authorities for similar purposes as cash and cash equivalents and therefore should be available and in the physical form required for trading.
- 2.18 Monetary gold is one particular type of reserve asset. Reserve assets may also be currency holdings or highly liquid investments which qualify as cash and cash equivalents as defined in IPSAS 2.8.

Scope

- 2.19 The scope of an IPSAS addressing monetary gold should include only physical gold holdings which qualify as monetary gold as defined in paragraph 2.13 and described in paragraphs 2.14 to 2.18.
- 2.20 Gold certificates, gold securities and other securities linked to gold, give rise to a financial asset of one entity and a financial liability or equity instrument of another entity and are therefore financial instruments in current IPSASs. The requirements and guidance in those standards would be applicable. Consequently these instruments would not be in the scope of an IPSAS on monetary gold.
- 2.21 Physical gold, such as gold finished goods (gold dore bars, gold concentrate and/or refined gold) held by entities which mine, refine and sell gold and gold products⁷ apply IPSAS 12, *Inventories*⁸ and will therefore not be in the scope of an IPSAS on monetary gold. The intention of holding physical gold inventory to profit from its extraction, processing and/or sale, indicates

⁵ Some monetary authorities may hold physical gold for the purpose of trading with other monetary authorities, banks or commodity brokers. Monetary authorities may have gold holdings for the purpose of selling these or for use in manufacturing for items such as gold coins.

⁶ An example of an international entity which holds reserve assets to provide stability to the global monetary system is the IMF, which has significant monetary gold assets. An example of a regional entity which holds reserve assets to provide stability to the European monetary system is the European Central Bank. Both of these entities work in a capacity similar to national governments and central banks in terms of their use of reserve assets, such as monetary gold.

⁷ This includes entities which mine gold, refine gold, use of gold in production of products such as jewelry and/or commodity traders who sell gold products.

⁸ IPSAS 12, *Inventories* accounting treatment is generally consistent with IAS 2, *Inventories*.

it is inventory and it would be appropriate to account for it at the lower of cost and net realizable value or current replacement cost, in accordance with IPSAS 12.15⁹.

Recognition

- 2.22 Monetary gold should be recognized in the statement of financial position when it meets the definition in section 2.13 and the definition of an asset in the Conceptual Framework which states “an asset is a resource presently controlled by the entity as a result of a past event.”
- 2.23 The Conceptual Framework provides recognition guidance which requires consideration in regards to uncertainty about the existence of an element and measurement uncertainty. When applying this guidance to monetary gold, because of the physical nature of the asset and the existence of a global market for trading gold, the existence and measurement risks are considered to be minimal.
- 2.24 Control can arise through the acquisition of monetary gold which results in physical possession through a purchase. Control can be exercised even if the gold is not directly held by the entity. Following acquisition it is common for monetary authorities to store gold with a monetary authority or international banking institution which provides safe keeping services¹⁰.

Measurement of Monetary Gold

- 2.25 As noted above, central banks and central governments which hold monetary gold as reserve assets are inconsistent in how they measure it, both initially and subsequently.
- 2.26 The Conceptual Framework notes that selection of a measurement basis contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess:
- (a) The cost of services provided in the period in historical or current terms.
 - (b) Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and
 - (c) Financial capacity—the capacity of the entity to continue to fund its activities;
- 2.27 The nature of monetary gold and the reason it is held means that a measure that provides information on financial capacity appears most relevant as it enables users to assess monetary authorities’ abilities to provide stability and liquidity into the financial system.
- 2.28 Further the Conceptual Framework notes that selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the Qualitative Characteristics (QCs).
- 2.29 In accordance with the guidance in the Conceptual Framework on measurement bases, as well as the current practices of those entities accounting for monetary gold, there are two

⁹ Inventory accounting under IPSAS 12 requires that gold is carried at lower of cost and net realizable value or current replacement costs. The option of which to use would be dependent on the purpose the gold inventories are being held.

¹⁰ Safe keeping services for gold are when a banking institution, such as a central bank or a large international bank take responsibility for holding gold on behalf of another institution. This gold may be held in either an allocated or unallocated account. An allocated gold account holds specific gold assets deposited by another entity. An unallocated gold account holds gold deposits, but does not segregate and/or specify the gold deposited by the depositing entity. Both are still considered to be assets of the contributing entity held for safekeeping (deposits of physical gold being held on behalf of the contributing entity).

measurement methods to consider; historical cost—which is an entity specific entry value and market value in open, active and orderly market—which is non-entity specific and observable.

Historical Cost

- 2.30 Given the purpose of holding monetary gold is to provide stability to the financial system as a reserve asset, historical cost does not appear to meet the QCs and provide users with the best information because it does not provide a faithfully representative measure of the resources controlled by the entity.

Market Value

- 2.31 An exit value seems appropriate for monetary gold, because it is a measure that provides information on the impact on financial capacity. The best exit-based measure is market value because there is an open, active and orderly market for gold. By using market value to measure the value of monetary gold, it allows for the faithful representation of the contribution of reserves of monetary gold to an entity's financial capacity. Market value also provides relevant and timely information by providing the true financial capacity of reserves. Further it provides better comparability between monetary authorities and the value of their monetary gold reserves in comparison to other monetary reserve assets, which is important for users to assess the stability of the monetary authority and the monetary system.
- 2.32 Given the ease of obtaining the spot price for gold, the global liquid market for trading gold and the purpose monetary authorities hold gold, market value is an appropriate measurement basis, as it provides relevant information on the contribution of monetary gold to an entity's financial capacity.
- 2.33 Further, given the use of monetary gold as a reserve asset by monetary authorities, valuing it at the current spot price is similar to how foreign cash reserves are valued, because they meet the definition of a financial asset in IPSASs, and cash reserves are measured at the current exchange rate at the reporting date in the currency markets. As the purpose and nature of the use of monetary gold, is similar to cash, a method of measurement consistent with that applied to cash reserves may help achieve the QC of comparability.

Initial and Subsequent Measurement

- 2.34 A single measurement basis may not provide the best information for users. For initial measurement, the cost of monetary gold may not be equal to market value¹¹ and may result in the recognition of day one gains or losses. Using historic cost for initial measurement may provide a more faithful representation of the initial costs to acquire the asset.
- 2.35 A further initial measurement consideration relates to the treatment of transaction costs and whether these should be expensed or capitalized. Treatment of transaction costs should consider the measurement bases selected. Transaction costs for historic cost seem appropriate to capitalize, as the purchase price plus transaction costs equals the full financial outlay to acquire the monetary gold. However, if it is thought more appropriate to use market

¹¹ It is thought that in most circumstances historical cost would be equal to market value, when transaction costs are excluded.

value for initial measurement, an argument can be made for expensing transaction costs¹² in the case where changes in value are recognized in the statement of financial performance.

- 2.36 Considering subsequent measurement, historical cost provides limited information on the financial capacity provided by monetary gold as the real value of gold changes over time. As a measurement basis historical cost provides better information on the costs of services provided through the use of an asset. Since the gold is not being used to fund services there is a question as to the value of using historical cost.
- 2.37 Market value—in an open, active and orderly provides information on the true financial capacity monetary gold provides at each subsequent reporting period. Allowing users to assess the financial capacity it provides to the monetary authority.

Derecognition

- 2.38 The Conceptual Framework in chapter 5.1.8 notes that *derecognition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an item that has been previously recognized in the financial statements. In evaluating existence uncertainty the same criteria are used for derecognition as at initial recognition.*
- 2.39 In accordance with this guidance, derecognition would most likely occur when the monetary gold is sold or transferred to another entity. Given the physical nature of monetary gold, other than an outright transfer or sale, any sale of an interest or percentage of gold, or use as gold for collateral would be contractual and give rise to a financial asset of one entity and a financial liability or equity instrument of another entity, and therefore be assessed under current IPSAS 28–30.

Presentation and Disclosure

- 2.40 The Conceptual Framework chapter on presentation in general purpose financial reports, provides information on the display and disclosure of information. The chapter notes that presentation involves the selection, location and organization of information that is reported in general purpose financial reports. Monetary gold being an element recognized in the financial statements as an asset, should be displayed on the face of the financial statements, either as a separate line item or grouped together with monetary reserve assets.
- 2.41 Changes in the fair value of monetary gold should be recognized in the financial statements. However, there is a question as to the most appropriate location to recognize such changes.
- 2.42 In practice, some entities recognize unrealized changes in the value of monetary gold together with unrealized changes in the value of foreign currency assets and these are displayed in a single reserve, either on the statement of financial position or directly in net assets/equity. Upon derecognition of monetary gold assets, the net unrealized gain or loss is displayed in the statement of financial performance. This allows the statement of financial performance to reflect the true cost of providing services in a period, by recognizing the unrealized (temporary) changes in value in monetary gold outside surplus or deficit for the year. For users interested in the assessing the costs of providing services each period, recognizing unrealized gains or

¹² IPSAS 29.45 notes that initial measurement of financial assets shall be measured at its fair value plus transaction costs directly attributable to the acquisition for all classes of financial assets except those measured at fair value through surplus or deficit.

losses in the statement of financial position or in net assets/equity, may provide better information.

- 2.43 Other entities recognize changes in monetary gold values directly in the statement of financial performance, and sometimes disaggregate changes by displaying both the unrealized and realized gains and losses separately. Disaggregation of gains and losses by displaying them as unrealized or realized allows users to understand the impact on financial performance and financial capacity, as well as which gains are temporary (unrealized) and which have been realized.
- 2.44 The statement of financial performance is often used to measure entity performance and service delivery. Therefore, there is a question whether recognizing unrealized gains or losses due to changes in the market price of gold in the statement of financial performance would be useful to users. However, an argument can be made that recognizing changes in the statement of financial performance, does show the increased or reduced financial capacity of monetary gold holdings to provide stability to the monetary system. Such an approach would be consistent with the recognition of changes in value of foreign currency holdings which are recognized in surplus or deficit in the period in which they arise as required in IPSAS 4.32. As foreign currency holdings are often held by monetary authorities as monetary reserve assets for a similar purpose as monetary gold, an argument can be made for consistent accounting for both.
- 2.45 From a disclosure perspective, disclosures can be used to enhance information available to users about monetary gold recognized in the statement of financial position and any accumulated unrealized gains or losses to help users understand the ability of monetary gold to provide financial capacity to monetary authorities. The following information in paragraphs 2.46 to 2.48, could be useful for disclosure in the notes, to help enhance items displayed on the face of the financial statements. The proposed items for disclosure are intended to help highlight how financial capacity is impacted by real additions and disposals of monetary gold and temporary unrealized value changes, by providing information on the change in monetary gold amount, physical quantity and movement in gold prices.
- 2.46 A reconciliation of the carrying amount at the beginning and end of the reporting period showing:
- Additions;
 - Unrealized gains/losses due to changes in market value; and
 - Disposals.
- 2.47 A reconciliation of physical quantity of monetary gold at the beginning and end of the period showing:
- Additions; and
 - Disposals.
- 2.48 Disclosure of the gold price at the beginning and end of the reporting period would increase information usefulness to users of the financial statements.