



Agenda Item 4: Sovereign Debt Restructuring

Ross Smith, Technical Manager

IPSASB Meeting

March 10-13, 2015

Santiago, Chile

Objective of Agenda Item

Consider key issues

Materials Presented

- Agenda Item 4.1 Issues Paper

Background (Paras 1 – 5)

- Recent discussion – sovereign debt restructurings
- High profile – media attention
- OECD Public Sector Accruals Symposium
- Restructurings – complex

Presentation (Paras 6 – 9, 26 – 35)

- IPSAS and statistical accounting
- Non-IPSAS measures
- IPSAS 1, *Presentation of Financial Statements*
- RPG 2, *Financial Statement Discussion and Analysis*

Recognition of Financial Liabilities (Paras 10 – 14, 36 – 39)

IPSAS 29: *Financial Instruments: Recognition and Measurement*

- Initial recognition – Fair Value (FV)
- Subsequent – Amortized cost
- Concessionary loans – public sector specific guidance
- Debt modifications

Derecognition of Financial Liabilities (Paras 15 – 18, 40 – 46)

- Obligations derecognized:
 - Settled through payment
 - Assumed by 3rd party
 - Terms and conditions are substantially modified
- Substantial modification – DCF +/- 10%

Interpretations (Para 19)

- IPSASB does not provide interpretations
- Application of IPSAS in full
- IPSAS increase quality and transparency – public sector financial reporting

Statistical Accounting (Paras 20 – 24)

- Media reports compare statistical accounting numbers to IPSAS – not comparable
- Differences exist under statistical accounting frameworks
 - Manual on Debt and Deficits and the Excessive Deficit Procedure

Examples – Concessionary Loan 1/2

The department of education made CU250,000 in low interest student loans on the following terms

Capital is repaid as follows:

- Year 1 - 2: no capital repayments
- Year 3: 30% capital to be repaid
- Year 4: 30% capital to be repaid
- Year 5: 40% capital to be repaid

Interest at 6% interest is paid annually in arrears
Market rate for similar loans is 11.5%

Examples – Concessionary Loan 2/2

Time	Opening Bal. (A)	Interest Payments (B)	Principle Payments (C)	Closing Bal. (A)-(C)	Cash flow (B)+(C)=(D)	Discounted Cash Flow (D) * Disc. Factor
1	250,000	15,000	0	250,000	15,000	13,453
2	250,000	15,000	0	250,000	15,000	12,065
3	250,000	15,000	75,000	175,000	90,000	64,926
4	175,000	10,500	75,000	100,000	85,500	55,318
5	100,000	6,000	100,000	0	106,000	61,508

The fair value of the concessionary loan is CU207,270 at inception. Therefore, CU42,730 is the non-exchange portion of the loan and should be treated in accordance with IPSAS 23.

Examples – Non-IPSAS Measure 1/3

Entity A used non-IPSAS measure - Net Debt, in its financial discussion and analysis, because the information is useful for users.

Net Debt is not defined in IPSAS, but is defined by the Entity as total debt less total liquidity.

Total debt includes short term financial liabilities plus long term financial liabilities. Total liquidity equals cash plus AFS and HFT financial assets. This information is considered useful as many users look at Net Debt as a key financial indicator in the public sector, and a way to measure the ability of public sector entities to meet their service delivery requirements.

Examples – Non-IPSAS Measure 2/3

Entity A's Balance Sheet at Dec 31. 2X01 reporting the following information:

- Current financial liabilities – CU10
- Long-term financial liabilities – CU115
- Cash – CU25
- AFS securities – CU30
- HFT securities – CU 50

Examples – Non-IPSAS Measure 3/3

<u>Reconciliation of Net Debt</u>	
Current financial liabilities	CU10
Long-term financial liabilities	CU115
Cash	CU(25)
AFS securities	CU(30)
HFT securities	CU(50)
Net Debt	CU20



www.ipsasb.org
