

## Agenda Item 5: Financial Instruments

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IPSASB Meeting

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## Session Outline

- Project management (5.2.1)
- ED development and specific issues (5.2.2-5.2.9)
- Draft ED (5.2.10) – any additional comments
- Hedge accounting education session

## 5.2.1 Project Management

- Convergence Project
  - Rules of the Road – Departures for public sector specific reasons
- Project Approach and Timelines
  - December 2016: IPSASB – vote on authoritative material & BCs
  - January – March 2017: TBG – review non-authoritative material
  - March 2017: IPSASB – final approval ED

### **Matter for consideration:**

Does the IPSASB agree with the proposed approach and timelines?

## 5.2.2 ED Development

ED marked up from IFRS 9 to reflect:

- Terminology
- Interactions with other standards
- IPSAS 29 Public sector modifications
- Additional public sector modifications proposed
  - Concessionary loans vs. credit impaired loans
  - Equity Instruments arising from non-exchange transactions

**Matter for consideration:**

Does the IPSASB agree with the process to develop the ED?

## 5.2.3 Terminology Changes

IFRS 9	IPSAS ED
net income	revenue
profit or loss	surplus or deficit
other comprehensive income	net assets/equity
fair value through profit or loss	fair value through surplus or deficit
fair value through other comprehensive income	fair value through net assets/equity
group	economic entity
parent entity	controlling entity
subsidiary	controlled entity
business combination	entity combination
business model	management model
LIBOR	interbank offered rate
shareholder	entity's owner
reliable	faithfully representative

### Matter for consideration:

Does the IPSASB agree with the proposed terminology changes in the ED?

## 5.2.3 Terminology Changes

- Use of “fair value” retained due to:
  - Fair value: IPSAS 34-38, *Interests in Other Entities* & IPSAS 39, *Employee Benefits*
  - Public sector measurement project

### **Matter for consideration:**

Does the IPSASB agree with the continued use of “fair value” consistent with other recent IPSAS projects?

## 5.2.4 Reference to Other Standards

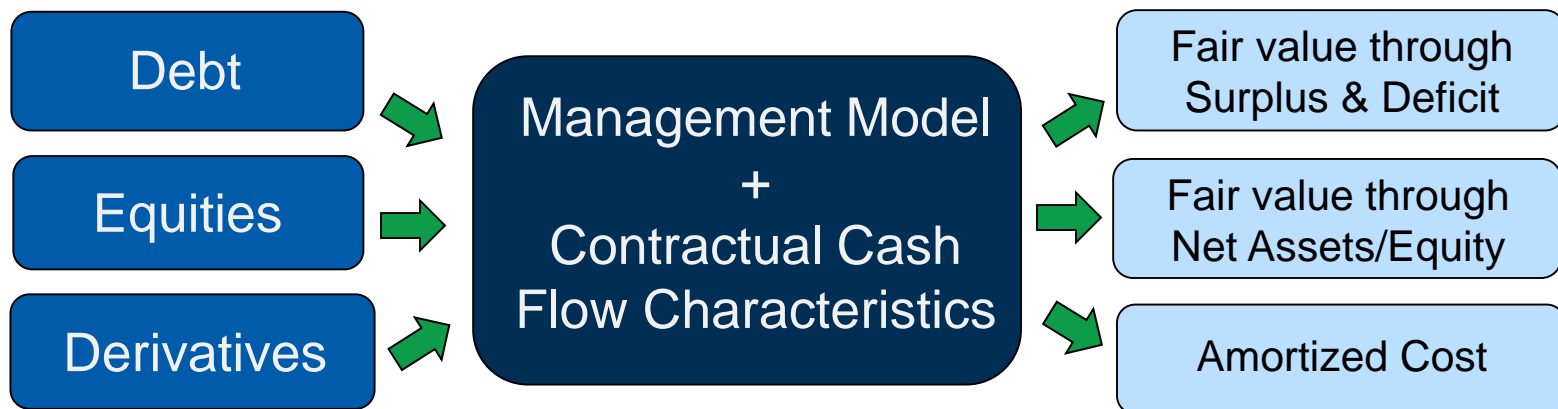
- General approach – Retain references only when current equivalent IPSAS exists
- References & related guidance dealt with as follows:
  - **IFRS 13** – IPSAS 29 fair value guidance; IE and/or IG to be developed/adapted
  - **IFRS 15** – Treatment of fees in effective interest method calculations retained; other references removed
  - **IFRS 3** – Amendment included for contingent consideration (consistent with Public Sector Combinations ED); other references removed

### **Matter for consideration:**

Does the IPSASB agree with the proposals to deal with references to other standards?

## 5.2.5 Classification Principles

- Principled classification model for financial assets



### Matter for consideration:

Does the IPSASB agree with the proposals in the ED related to the classification principles?



## 5.2.6 Measurement

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Classification	Asset	Measurement	Changes in Value
Fair Value Surplus/Deficit	Debt/Equity/ Derivatives	Fair Value	Surplus/Deficit
Fair Value Net Assets/Equity	Debt/Equity	Fair Value	Net Asset/Equity <ul style="list-style-type: none"> <li>• Debt Instruments when derecognized reclassified surplus/deficit</li> <li>• Equity instruments not reclassified when derecognized</li> </ul>
Amortized Cost	Debt	Amortized Cost	Effective Interest Method: Through Surplus/Deficit

### Matter for consideration:

Does the IPSASB agree with the proposals in the ED related to measurement?

## 5.2.6 Measurement – Unquoted Equity Instruments

- Proposal: fair value measurement for equities consistent with IFRS 9
  - Broadly consistent with existing guidance in IPSAS 29
  - Cost not consistent with classification principle introduced
  - Equity instruments held for objective other than profit in public & private sectors
  - IASB view that fair value provides the most relevant information

TBG & Staff propose development of illustrative examples/implementation guidance to help determine fair value

## 5.2.6 Measurement – Unquoted Equity Instruments

- Proposal: guidance on determining fair value consistent with IPSAS 29
  - IPSAS project on public sector measurement
  - Risk in prescribing particular measurement methods
  - Risk in removing onus on preparers to apply judgment to specific facts & circumstances
  - Convergence with IFRS - no compelling public sector reason to depart

TBG & Staff propose illustrative examples/implementation guidance be developed for valuation techniques to use for unquoted equity instruments

### **Matter for consideration:**

Does the IPSASB agree with the proposals on the measurement of unquoted equities?

## 5.2.7 Equity Instruments Arising from Non-Exchange Transactions

- TBG debated guidance consistent with concessionary loans
- Equity investments to provide financing or a subsidy/grant
- Different economic substance vs. concessionary loans
  - Contractual cash flows and purchase price
  - Market terms

## 5.2.7 Equity Instruments Arising from Non-Exchange Transactions (Appendix D)

### Proposal A

Application guidance in the ED:

- Requires assessment of grant portion of equity instrument;
- Does not explicitly define the “concessionary” element.

### Proposal B

Application guidance similar to concessionary loans:

- Concessionary element = consideration in excess of FV of equity

### Proposal C

No additional guidance proposed because:

- Significant differences between equity & debt instruments;
- Sufficient guidance exist in ED and IPSAS 23

### Matter for consideration:

Does the IPSASB support the staff’s recommendation for Proposal C?

## 5.2.8 Impairment – ECL Model

### General Approach

- 12 months ECL at inception
- Lifetime ECL if significant increase in credit risk

### Simplified Approach for Receivables

- Lifetime ECL at initial recognition

### Purchase/Originated Credit Impaired Assets

- Lifetime ECL at inception
- Credit adjusted EIR

### Matter for consideration:

Does the IPSASB agree with the proposals included in the ED on impairment?

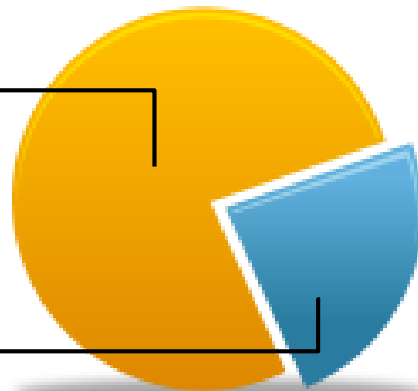
## 5.2.9 Application of ECL to Receivables

### Short-term Receivables <12 months

Loss provisions based on historical data likely approximates ECL due to short-term nature

### Receivables >12 months

Simplified approach removes requirement to track credit deterioration

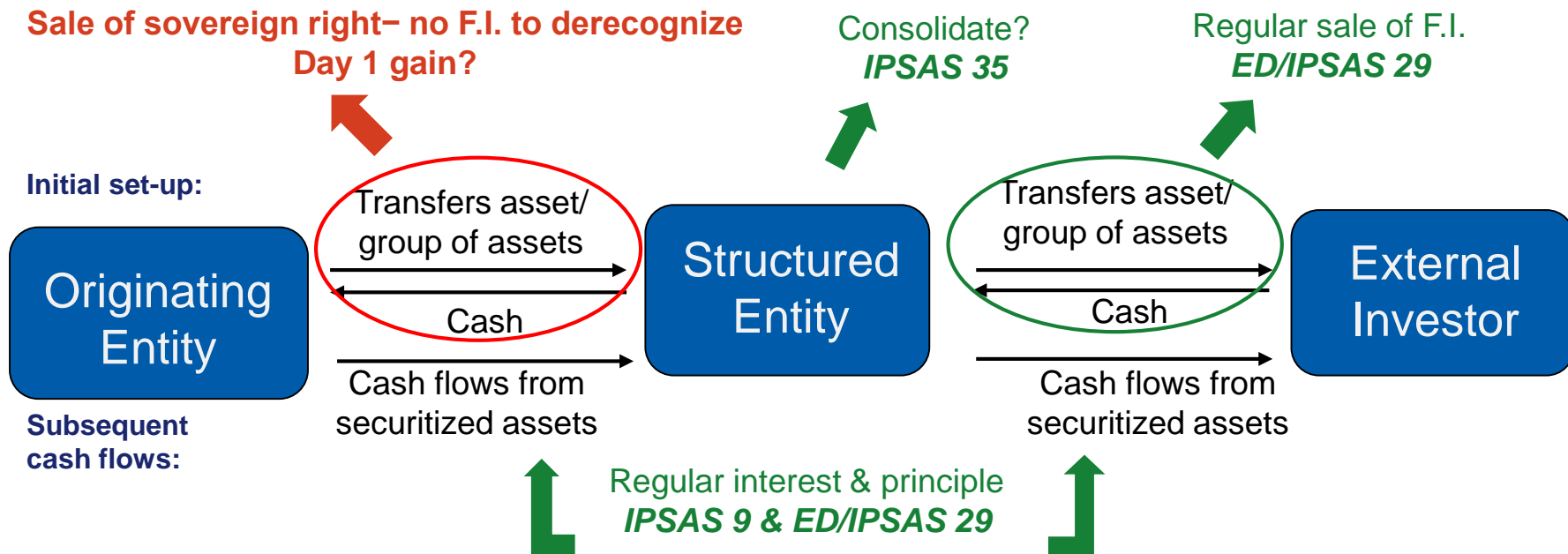


### Flexibility and simplifications permitted:

- Portfolio basis assessment
- Use of historical loss experience
- Use of provisions matrix
- Complex calculation not required
- Simplification for low credit risk
- 30 Days past due rebuttable presumption
- 12 months risk of default as proxy for lifetime risk

**Matter for consideration:** Does the IPSASB agree with no departure in authoritative guidance, development of illustrative examples & the proposed BC (5.2.9 – para 6)?

## 5.2.10 Securitization of Rights Arising from Sovereign Powers





## 5.2.10 Securitization of Rights Arising from Sovereign Powers

- Sufficient existing financial instruments guidance
  - Recognition, derecognition and measurement
- Sale of sovereign right — revenue recognition issue
  - Lack of a financial instrument
- Revenue guidance for non-financial instruments inappropriate in ED

**Matter for consideration:** Does the IPSASB agree with the sale of sovereign right being a revenue issue and not a financial instruments issue, and the proposed BC (5.2.10)?

## 5.2.10 Draft ED

- Any additional comments on the ED?

December 2016 plan:

- Hedge accounting, transition & BCs



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