

## Agenda Item 7: Financial Instruments

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IPSASB Meeting

Stellenbosch, South Africa

## Session Outline

- Project management (7.1.1-7.1.3)
- ED development and specific issues (7.2.1-7.2.4)
- Instructions from September 2016 Meeting Actioned (7.2.5)
- Draft ED (7.10) – any additional comments
- CAG Update

## 7.1.1 Project Management

September 2016:

- Agreed classification & measurement

December 2016:

- Review & agree hedging, transition, & BCs

March 2017:

- Approval of authoritative guidance & amendments to other IPSASs





April 2017 TBG Meeting:

- April 19-21 at The Royal Netherlands Institute of Chartered Accountants

June 2017:

- Approval of draft ED

## 7.1.2 Decisions from September – Recap

Topic	IPSASB Agreement	Key points of discussion
<i>Approach &amp; Terminology</i>		Revenue, fair value, management model
<i>Classification Model</i>		Principle-based guidance
<i>Measurement Model</i>		Outcome of classification; fair value
<i>Expected Credit Loss Impairment Model</i>		Applicability to public sector

## 7.2.1 ED Development – Hybrid Instruments (1/4)

- What is a hybrid instrument
- Differences in accounting

IPSAS 29	ED (IFRS 9)
<ul style="list-style-type: none"><li>• Separation (bifurcation) assessment</li><li>• If required to separate, account for embedded derivatives on a stand-alone basis</li><li>• Option to account for entire instrument at fair value through surplus or deficit</li></ul>	<ul style="list-style-type: none"><li>• No bifurcation</li><li>• Classify &amp; account for in entirety</li><li>• Application of guidance consistent with other F.I.s</li></ul>

## 7.2.1 ED Development – Hybrid Instruments (2/4)

- New requirements introduced due to:
  - Significant cost and effort in identifying and separating embedded derivatives
  - Reliability of estimating fair value of embedded components
  - Entities often designate at fair value through surplus and deficit for simplicity

## 7.2.1 Hybrid Instruments – Puttable Instruments (3/4)

What are puttable instruments?

Capital subscriptions with redemption features

Classification & Measurement proposed in ED (holder):

- Financial asset – equity or debt
- SPPI & Management model
- Fair value measurement – often redemption price

## 7.2.1 Hybrid Instruments – Concessionary Loans with Contingent Payment Features (4/4)

- Concessionary loans
  - A) Terms that give rise to fixed and determinable cash flows
    - Basic lending arrangement → pass SPPI → amortized cost possible
  - B) Terms that give rise to contingent cash flows
    - Unpredictable cash flows → likely fail SPPI → fair value through surplus or deficit
    - Fair value more faithfully reflects uncertainty in timing and amount of cash flows
    - Amortized cost provides less relevant information and is challenging to implement in this case

### **Matter for consideration:**

Does the IPSASB agree with the proposals for hybrid instruments in the ED?



## 7.2.2 ED Development – Hedge Accounting

### Principle-based requirements

Hedging  
Instruments

**More inclusive:** permits non-derivative FIs at fair value through surplus/deficit

Hedged Items

**More inclusive:** permits risk components of non-financial items and synthetic and net positions

Hedge  
Effectiveness Test

**More principle-based:** removal of quantitative thresholds and retroactive testing, and permits use of existing risk management documentation

Option for entities to continue to apply hedge accounting requirements in IPSAS 29

### Matter for consideration:

Does the IPSASB agree with the hedge accounting proposals in the ED?

## 7.2.3 ED Development – Transition

Paragraphs 149-176 of ED

Early adoption permitted

Not required to restate comparatives

Removed option for early adoption of own-credit provisions

### **Matter for consideration:**

Does the IPSASB agree with the transition proposals in the ED?

## 7.2.4 ED Development – Basis for Conclusions (Appendix D)

- Approach for retaining modifications made in IPSAS 29 (BC 4)
- IPSAS 29 BCs are appropriate to retain (BC 6-11)
- Public sector issues/modifications agreed by IPSASB
  - Equity instruments arising from non-exchange transactions (BC 12)
  - Public sector securitizations (BC 13)
  - Applicability of new impairment provisions to public sector entities (BC 14)

### **Matter for consideration:**

Does the IPSASB agree with the BCs developed to date?

## 7.2.5 Instructions from September Actioned

- BC - replacing “income” with “revenue” (BC 5)
- Concessionary loans vs. credit impaired assets
  - Removal of additional paragraph proposed in September
- Public sector securitizations
  - AG33 and BC 13 noting possibility of financial liability to arise

### **Matter for consideration:**

Does the IPSASB agree with the proposed actions?

# CAG Update



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