



# Financial Instruments (Updates to IPSAS 28-30)

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Development and Technical Projects

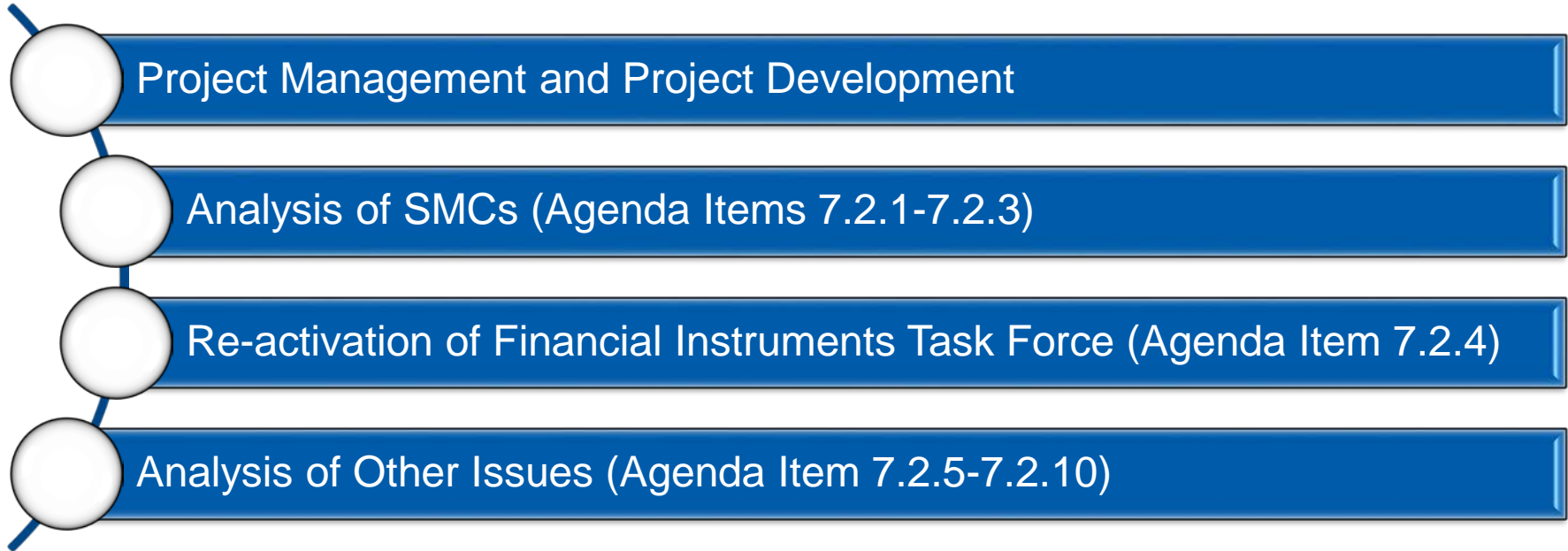
Ross Smith, Deputy Director

IPSASB Meeting

March 6-9, 2018

New York, USA

# Session Outline



## Summary of Project Progression (Agenda Item 7.1.3)

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:

- Reviewed the non-authoritative material at the in-person TBG Meeting

June 2017:

- Final approval of draft ED

# Overview of Current IPSASs on Financial Instruments

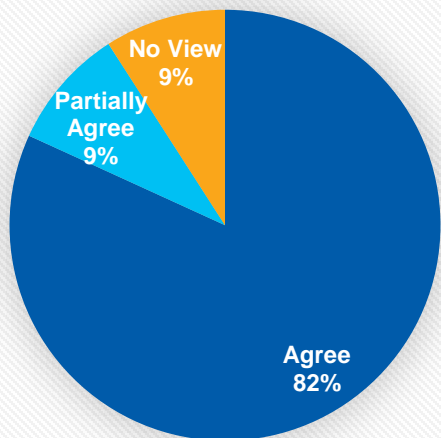
	IPSAS	IFRS	Convergence
<i>Financial Instruments: <b>Presentation</b></i>	<b>IPSAS 28</b>	<b>IAS 32 Updates</b> (Including amendments up to December 2008)	<b>Primarily converged</b> with minor differences
<i>Financial Instruments: <b>Recognition and Measurement</b></i>	<b>IPSAS 29</b>	<del>IAS 39</del> <b>IFRS 9</b> (Including amendments up to April 2009)	<b>Primarily converged</b> with limited public sector specific additions in IPSAS 29
<i>Financial Instruments: <b>Disclosures</b></i>	<b>IPSAS 30</b>	<b>IFRS 7 Updates</b> (Including amendments up to April 2009)	<b>Primarily converged</b> with limited public sector specific additions in IPSAS 30

# Overview of IFRS 9: Financial Instruments

Phase I Classification & Measurement	Phase II Impairment	Phase III Hedge Accounting
<ul style="list-style-type: none"><li>▪ Financial assets – significant changes</li><li>▪ Financial liabilities – own credit risk</li></ul>	<ul style="list-style-type: none"><li>▪ Expected loss model – dual measurement approach</li></ul>	<ul style="list-style-type: none"><li>▪ Principles-based approach to align with risk management</li><li>▪ Flexibility in hedging instruments &amp; hedged items</li></ul>

# SMC 1: Hedge Accounting Requirements (Agenda Item 7.2.1)

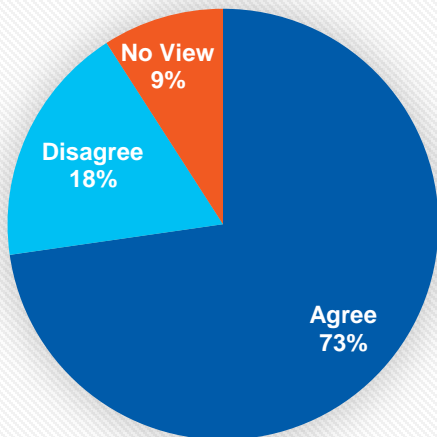
SMC 1: Consistent with the relief provided in IFRS 9, the IPSASB has agreed in [draft] IPSAS [X] (ED 62) to allow an option for entities to continue to apply the IPSAS 29 hedging requirements. Do you agree with the IPSASB's proposal?



	Agree	Partially Agree	Disagree	No view
# of Respondents	18	2	-	2

## SMC 2: Implementation Period (Agenda Item 7.2.2)

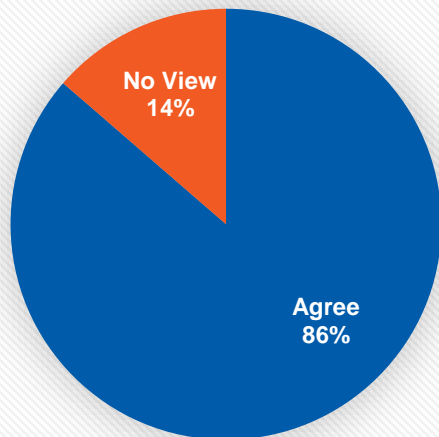
SMC 2: Do you agree with the proposed 3-year implementation period before [draft] IPSAS [X] (ED 62) becomes mandatory? Please explain.



	Agree	Partially Agree	Disagree	No view
# of Respondents	16	-	4	2

## SMC 3: Transitional Provisions (Agenda Item 7.2.3)

SMC 3: Do you agree with the proposed transition requirements in paragraphs 153-180, consistent with those provided in IFRS 9? If not, what specific changes do you recommend and why?



	Agree	Partially Agree	Disagree	No view
# of Respondents	19	-	-	3



## Financial Instruments Task Force (Agenda Item 7.2.4)

### SMCs

SMC 1

Strongly Supported (82% Agree)

SMC 2

Strongly Supported (73% Agree)

SMC 3

Strongly Supported (86% Agree)

Core Principles  
Proposed in ED 62  
are strongly  
supported

### Other Issues Identified

Challenges identified in application and interpretation of the principles

Re-activate Task  
Force

# Financial Instruments Task Force (Agenda Item 7.2.4)

## Other Issues Identified

Challenges identified in application and interpretation of the principles

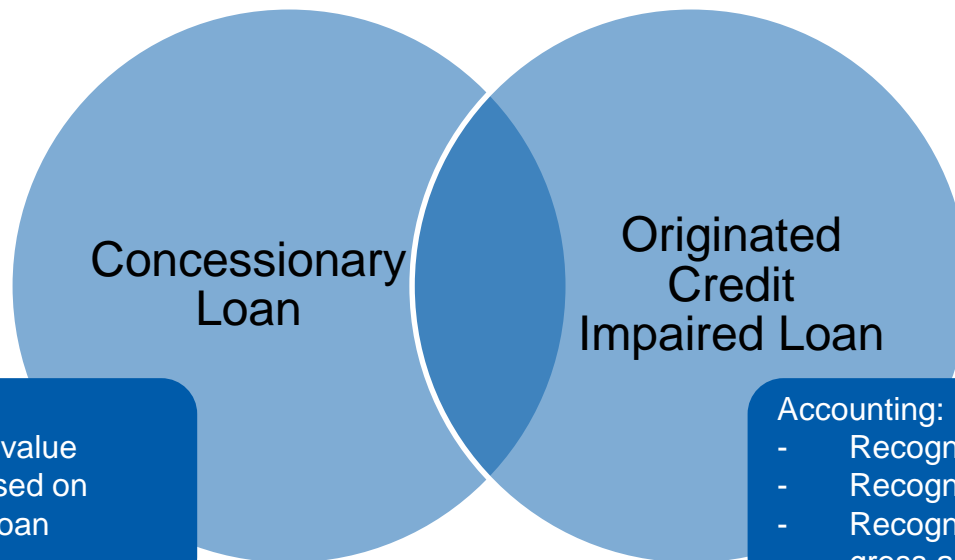
Category 1 – Issues for Further Consideration by the Task Force (7.2.5-7.2.10)

Category 2 – Issues with Staff Proposed Response for Review by the Task Force (7.3.4)

Category 3 – Minor Issues (7.3.5)

# Other Issues – Concessionary and Originated Credit Impaired Loans (Agenda Item 7.2.5) (1/3)

## Loan Characteristics



### Accounting:

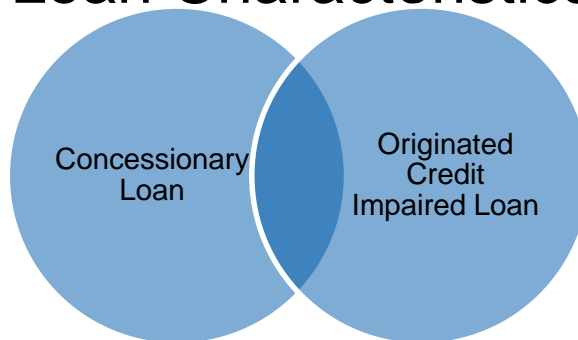
- Recognize loan at fair value
- Recognize interest based on amortized cost of the loan

### Accounting:

- Recognize loan at fair value
- Recognize concession separately
- Recognize interest based on gross amount of the loan

# Other Issues – Concessionary and Originated Credit Impaired Loans (Agenda Item 7.2.5) (2/3)

## Loan Characteristics



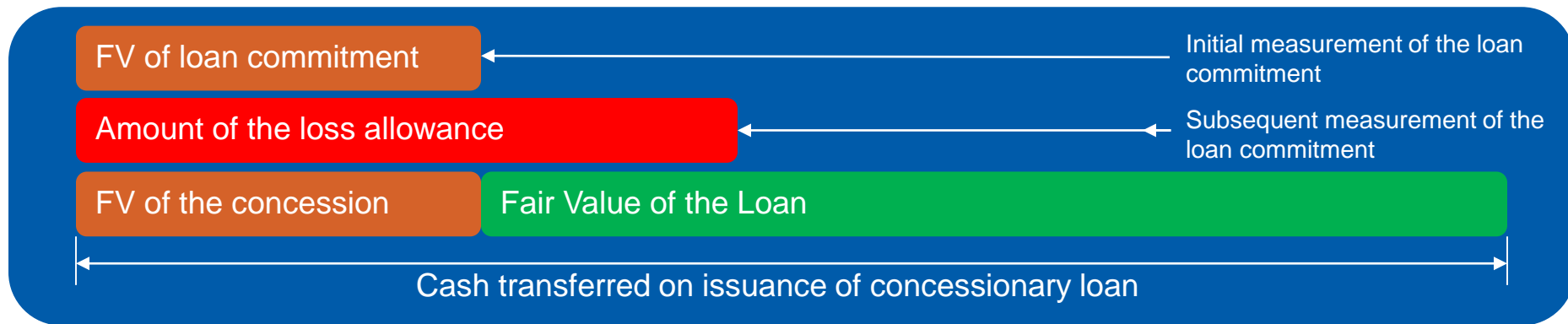
### For Task Force Consideration:

- Separate the credit and concessionary elements;
- Develop a practical expedient to include the credit impairment in the day one concession;
- Develop an example applying the principles; or
- Allow the application of the principles to develop in practice.

## **Other Issues – Concessionary and Originated Credit Impaired Loans (Agenda Item 7.2.5) (3/3)**

Does the IPSASB agree with staff's proposed options for Task Force consideration?

## Other Issues – Commitment to Issue a Concessionary Loan (Agenda Item 7.2.6) (1/2)



### For Task Force Consideration:

- Develop an example illustrating the application of the existing principles;
- Develop additional guidance detailing measurement of a loan commitment over a concessionary loan; or
- Allow the application of the principles to develop in practice.

## **Other Issues – Commitment to Issue a Concessionary Loan (Agenda Item 7.2.6) (2/2)**

Does the IPSASB agree with staff proposed options for consideration by the Task Force?

## Other Issues – Ignoring the Effects of Discounting Short Term Receivables (Agenda Item 7.2.7) (1/2)

### IFRS 15.63 Practical Expedient

No adjustment to contractual amount for financing if payment is expected within 12 months

VS

### ED 62 General Measurement Requirements

Measure a financial asset at its fair value

### For Task Force Consideration:

- There is no inconsistency;
- Wait for more clarity from the Revenue project;
- Develop a practical expedient in ED 62 to mirror that of IFRS 15; or
- Develop an example illustrating the application of existing principles.



## **Other Issues – Ignoring the Effects of Discounting Short Term Receivables (Agenda Item 7.2.7) (2/2)**

Does the IPSASB agree with the options developed by staff for consideration by the Task Force?

## Other Issues – Measuring Fair Value of Non-Cash Generating Equity Instruments (Agenda Item 7.2.8) (1/2)

- The Board added guidance in ED 62 outlining the valuation options available when measuring equity investments (AG125-AG127, AG145-AG152 and examples 23-26)
- Three respondents requested additional guidance and clarity

### For Task Force Consideration:

- What further non-authoritative guidance could be developed to clarify acceptable measurement methodologies; and
- Whether further non-authoritative guidance should be developed.

## Other Issues – Measuring Fair Value of Non-Cash Generating Equity Instruments (Agenda Item 7.2.8) (2/2)

This IPSASB is asked the following:

- Does it agree with the Task Force consideration this issue?
- Does it agree with staff's proposal of considerations the Task Force should review?

## Other Issues – Clarifying an ‘in substance’ Equity Instrument (Item 7.2.9) (1/2)

How to determine whether an equity instrument includes a concessionary element

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graph TD; A[How to determine whether an equity instrument includes a concessionary element] --> B[Current guidance (AG126)  
Analyze the substance of the arrangement (i.e. what was the intent of the “investment”)]; A --> C[Proposal  
Contract must explicitly state the form of the transaction]; B --- D[or] --- C;
```

Current guidance (AG126)  
Analyze the substance of the arrangement (i.e. what was the intent of the “investment”)

or

Proposal  
Contract must explicitly state the form of the transaction

For Task Force Consideration:

- Whether the requiring the substance to be considered continues to be appropriate; or
- If the IPSAS 23 requirements are appropriate; and
- Develop a Basis for Conclusions that highlights the decision.

## Other Issues – Clarifying an ‘in substance’ Equity Instrument (Item 7.2.9) (2/2)

This IPSASB is asked the following:

- Does the IPSASB agree with the Task Force consideration of this issue?
- Does the IPSASB agree with staff’s proposal of what the Task Force should review related to this issue?

# Other Issues – Interaction of Day One Fair Value Guidance with Other Valuation Guidance (Item 7.2.10) (1/2)

- The Board added AG117 which addresses how to account for the transaction when the transaction price does not equal the fair value
- A respondent noted the guidance is similar in AG147 and AG148 and should be further considered by the IPSASB

## For Task Force Consideration:

- Whether to remove paragraph AG117;
- Whether more clarity is required in how to apply AG117;
- Whether to remove paragraphs AG147 and AG148; and
- Keep all guidance and clarify which takes precedence.

## Other Issues – Interaction of Day One Fair Value Guidance with Other Valuation Guidance (Item 7.2.10) (2/2)

This IPSASB is asked the following:

- Does the IPSASB agree with the Task Force consideration of this issue?
- Does the IPSASB agree with staff's proposal of what the Task Force should review related to this issue?