

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 18–21, 2019

Agenda Item 5

For:

- ☒ Approval
☒ Discussion
☒ Information

PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS

Project summary	To consider the appropriate accounting treatment for items in scope of the public sector specific financial instruments project.	
Meeting objectives Project management	Topic	Agenda Item
	Project Roadmap	5.1.1
	Decisions up to March 2019 Meeting	5.1.2
	Instructions up to March 2019 Meeting	5.1.3
Decisions required at this meeting	Development of [draft] IPSAS [X] (ED 69), <i>Amendments to IPSAS 41, Financial Instruments</i>	5.2.1
	Monetary Gold	5.2.2
	Currency in Circulation	5.2.3
	IMF Quota Subscriptions	5.2.4
	Special Drawing Rights	5.2.5
	Approval of [draft] IPSAS [X] (ED 69), <i>Amendments to IPSAS 41, Financial Instruments</i>	5.2.6
Other supporting items	Appendix A – [draft] IPSAS [X] (ED 69), <i>Amendments to IPSAS 41, Financial Instruments</i>	5.3.1
	Appendix B – Project Summary	5.3.2
	Appendix C – IPSASB Decision Tree to Determine Approach to Developing Guidance for PSSFI Transactions (March 2018)	5.3.3

PROJECT ROADMAP

Meeting	Objective: IPSASB to consider:
June 2019 (Current Meeting)	<ul style="list-style-type: none">• Approve Exposure Draft for comment• Decision on exposure period
September 2019 (Next Meeting)	<ul style="list-style-type: none">• Out for comment
December 2019	<ul style="list-style-type: none">• Out for comment
March 2020	<ul style="list-style-type: none">• Review responses to ED• Discussion of Issues
June 2020	<ul style="list-style-type: none">• Review responses to ED• Discussion of Issues
September 2020	<ul style="list-style-type: none">• Approve final pronouncement

DECISIONS UP TO MARCH 2019 MEETING

Date of Decision	Decision
March 2018	<ul style="list-style-type: none"> Approval of IPSAS 41 should occur prior to completing the analysis of the PSSFI CP responses. The “Decision Tree” approach should be applied in determining the appropriate level of guidance to develop for each PSSFI. The Task Force is delegated: <ul style="list-style-type: none"> Review of responses and developing project options; and Developing the ED The project scope as outlined in June 2017 should be maintained.
June 2017	<ul style="list-style-type: none"> The full analysis of the responses to the CP should be considered together with the responses received to ED 62. It was agreed that staff should explore the options for dealing with transactions in the current financial instruments standards and provide a recommendation on the way forward (possibly to be included as either authoritative guidance or non-authoritative guidance). The IPSASB should provide staff with the flexibility to consider practical approaches to deal with the transactions in additional guidance in other standards, rather than seeking a perfect conceptual approach, given the very specific and complicated transactions in scope of the CP and the advice of CAG members. The scope of the project should not be broadened.
June 2016	All decisions made up until June 2016 or earlier were reflected in Consultation Paper, Public Sector Specific Financial Instruments .

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INSTRUCTIONS UP TO MARCH 2019 MEETING

Meeting	Instruction	Actioned
March 2019	Not on the agenda	
December 2018	Not on the agenda	
September 2018	Not on the agenda	
June 2018	Not on the agenda	
March 2018	The IPSASB instructed its Task Force to: <ul style="list-style-type: none"> • Perform a detailed review or responses; and • Develop an Exposure Draft for consideration by the Board. 	Done <ul style="list-style-type: none"> • See Agenda Item 5.2.2–5.2.5 • See Exposure Draft in Appendix A
June 2016	All instructions provided up until June 2016 or earlier were reflected in the Consultation Paper, Public Sector Specific Financial Instruments .	Done

Development of [draft] IPSAS [X] (ED 69), *Amendments to IPSAS 41, Financial Instruments*

Purpose

1. To summarize for the Board the decisions reached by the Financial Instruments Task Force in developing [draft] IPSAS [X] (ED 69), *Amendments to IPSAS 41, Financial Instruments*.

Background

2. At its March 2018 meeting, the Board directed the Financial Instruments Task Force to:
 - (a) Review the responses to the Consultation Paper, *Public Sector Specific Financial Instruments*; and
 - (b) Develop an Exposure Draft for the Board's consideration.
3. The Board instructed the Financial Instruments Task Force to:
 - (a) Maintain the project scope (monetary gold, currency in circulation, IMF quota subscriptions and Special Drawing Rights);
 - (b) Consider practical approaches to deal with the transactions; and
 - (c) Explore options for dealing with transactions in the current financial instruments standards.
4. A detailed project background is included as part of [Appendix B, Project Summary](#).

Task Force Decisions

5. At its October 2018 face to face meeting, the Task Force discussed the accounting for each of the instruments within the scope of the project. Based on these discussions, the Task Force agreed:
 - (a) PSSFI guidance should address whether the instruments are within the scope of IPSAS 41, *Financial Instruments*, because:
 - (i) The IPSASB had previously concluded that for those items that meet the definition of a financial instrument, they should be treated as such in accordance with the guidance in IPSAS 41.
 - (ii) Developing specific accounting examples for each instrument or transaction is inconsistent with existing illustrative examples in IPSAS 41 (examples currently outline principles, not accounting for transactions);
 - (iii) The Board should not interpret the application of its own principles in its standards. The appropriate accounting is dependent on facts and circumstances which can differ between entities; and
 - (iv) The IPSASB agreed the output of this project should be practical.
 - (b) Public Sector Specific Financial Instruments (PSSFI) guidance should be added to IPSAS 41 because:
 - (i) Three of the four PSSFI (IMF quota subscription, IMF special drawing rights and currency in circulation) clearly meet the definition of a financial instrument.

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- (ii) The fourth PSSFI (monetary gold) shares characteristics with financial assets, therefore it is appropriate to apply the financial instruments principles in certain circumstances.

The Task Force has developed draft Exposure Draft (ED) 69 that proposes amendments to IPSAS 41.

Table 1 – Treatment of each PSSFI in ED 69

<i>Instrument</i>	<i>In scope of IPSAS 41</i>	<i>Treatment in ED 69</i>
Monetary Gold (Agenda Item 5.2.2)	No (account for by analogy)	Amendment to IPSAS 41 (IG B.1.A and BC18A-BC18E)
Currency in Circulation (Agenda Item 5.2.3)	Yes	Amendment to IPSAS 41 (IG B.1.1.1)
IMF Quota Subscription (Agenda Item 5.2.4)	Yes	Not included in ED 69 (Example currently exists in IPSAS 41)
Special Drawing Rights (Agenda Item 5.2.5)	Yes	Amendment to IPSAS 41 (IG B.1.1.2 and IG B.1.1.3)

Decision required

6. No decision required. For information purposes only.

Monetary Gold**Question**

1. Whether the Board agrees with the recommended Implementation Guidance and Basis for Conclusions developed for monetary gold.

Background

2. Monetary gold is tangible gold held by monetary authorities as reserve assets. This allows monetary authorities the ability to:
 - (a) Maintain liquidity for balance of payments financing needs;
 - (b) Intervene in the currency markets as necessary; and
 - (c) Maintain confidence in the currency and the economy.
3. With no explicit guidance in IPSAS, the Task Force discussed the appropriate accounting for monetary gold at its October 2018 face to face meeting.

Task Force Analysis*Accounting*

4. The Task Force concluded monetary gold does not meet the definition of a financial asset because it is not cash, nor is it a contract to receive cash. This conclusion is consistent with existing gold bullion Implementation Guidance in IFRS 9 and IPSAS 41 paragraph B.1.
5. However, because monetary gold shares many characteristics with a financial asset, the Task Force agreed it may be appropriate to apply the financial instruments principles to monetary gold. The Task Force also considered whether it is appropriate to account for monetary gold as:
 - (a) Inventory;
 - (b) Property, Plant, and Equipment; and
 - (c) Investment Property.

Proposed Guidance

6. As this instrument does not meet the definition of a financial instrument, the Task Force considered the options in the Board's [Decision Tree](#) to evaluate what type of guidance should be developed. Focusing on a practical solution, the Task Force concluded Implementation Guidance should be developed supported by Basis for Conclusions detailing the facts considered.
 - (a) [Implementation Guidance B.1.1.A](#) addresses whether monetary gold meets the definition of a financial instrument; and
 - (b) [Basis for Conclusions 18A–18E](#) highlights why it may be appropriate to apply the financial instruments principles to monetary gold compared with other financial statement items.

Decision required

7. Does the Board agree with the Task Force's recommendation?

Currency in Circulation**Question**

1. Whether the Board agrees with the recommended Implementation Guidance for currency in circulation.

Background

2. The PSSFI project considers whether a financial liability is created when currency is issued by a monetary authority, or similar institution.
3. With no explicit guidance in IPSAS, the Task Force discussed the appropriate accounting for currency in circulation at its October 2018 face to face meeting.

Task Force Analysis*Accounting*

4. For a financial liability to exist, a contractual obligation to deliver cash or another financial asset must be present. In some jurisdictions, a statutory arrangement obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.
5. As a statutory arrangement is not a contract, the Task Force considered the requirements in IPSAS 28, *Financial Instruments: Presentation*, that an entity considers the substance rather than the legal form of an arrangement in determining whether there is a “contract”. The Task Force concluded a financial liability is created by issuing currency when:
 - (a) Legislation, or a sovereign power, outlines the obligation to exchange currency; and
 - (b) The currency is issued.

Proposed Guidance

6. The Task Force agreed additional guidance was necessary to support constituents in evaluating whether a contractual arrangement is present to deliver cash when currency is issued. [Implementation Guidance B.1.1.1](#) outlines when issuing currency satisfies the financial instrument criteria.

Decision required

7. Does the Board agree with the Task Force's recommendation?

IMF Quota Subscriptions**Question**

1. Whether the Board agrees with the recommended guidance for IMF quota subscriptions.

Background

2. IMF quota subscriptions provides holders with membership in the IMF; that membership brings rights, benefits and obligations. The quota subscription gives:
 - (a) Voting rights equal to the size of a member's quota relative to total membership;
 - (b) Payments of interest from the IMF based upon a calculation of a member's 'reserve tranche position'; and
 - (c) A right to borrow from the IMF based on the amount of the quota subscription for balance of payment needs.
3. With no explicit guidance in IPSAS, the Task Force discussed the appropriate accounting for IMF quota subscriptions at its October 2018 face to face meeting.

Task Force Analysis*Accounting*

4. The Task Force concluded IMF quota subscriptions meet the definition of a financial asset because the member is repaid its contribution when it withdraws from the IMF (a contractual right to receive cash).

Proposed Guidance

5. During the development of IPSAS 41, *Financial Instruments*, the Task Force developed a public sector specific illustrative example based on the characteristics of an IMF quota subscription. Since Illustrative Example 32 in IPSAS 41 already outlines the considerations required in evaluating how to account for such an instrument, the Task Force agreed no further guidance is required.

Decision required

6. Does the Board agree with the Task Force's recommendation?

Special Drawing Rights**Question**

1. Whether the Board agrees with the recommended Implementation Guidance for Special Drawing Rights (SDR).

Background

2. The SDR serves as the unit of account of the IMF and some other international organizations. The PSSFI project included two SDR instruments:
 - (a) SDR holdings represent a claim on the currencies of members of the International Monetary Fund (IMF). SDR's can be used in transactions with the IMF or can be exchanged between participants of the IMF's SDR Department. Liquidity is guaranteed by a mechanism requiring participants to deliver cash in exchange for SDRs; and
 - (b) SDR allocations represent the obligation assumed when SDR holdings are distributed to members. IMF members must stand ready to provide currency holdings up to the amount of their SDR allocation.
3. With no explicit guidance in IPSAS, the Task Force discussed the appropriate accounting for SDRs at its October 2018 face to face meeting.

Task Force Analysis*Accounting*

4. The Task Force concluded:
 - (a) SDR Holdings meet the definition of a financial asset because the mechanism requiring participants to deliver cash in exchange for SDRs allows holders to convert the instruments into cash (a contract to receive cash); and
 - (b) SDR Allocations meet the definition of a financial liability because holders must stand ready to provide cash (a contract to deliver cash).

Proposed Guidance

5. The Task Force agreed additional guidance was necessary to support constituents in evaluating whether SDRs met the definition of a financial instrument; at which point the extensive guidance in IPSAS 41 applies. The Task Force agreed to develop [Implementation Guidance B.1.1.2](#) for SDR holdings and [Implementation Guidance B.1.1.3](#) for SDR allocations to support this clarification.

Decision required

6. Does the Board agree with the Task Force's recommendation?

Approval of [draft] IPSAS [X] (ED 69), *Amendments to IPSAS 41, Financial Instruments*

Purpose

1. The IPSASB is asked to approve [draft] IPSAS [X] (ED 69), *Amendments to IPSAS 41, Financial Instruments*, and to agree with the proposed exposure period.

Due Process

2. The IPSASB released its Consultation Paper, *Amendments to IPSAS 41, Financial Instruments*, in July 2016. The exposure period closed December 31, 2016.
3. Prior to the June 2017 IPSASB meeting, the IPSASB CAG discussed the responses to the Consultation Paper. The CAG provided input for the IPSASB to consider as part of its analysis.
4. The IPSASB performed an initial review of responses in June 2017 and provided staff with direction in how to proceed. In March 2018, the IPSASB delegated the detailed review of responses and the drafting of the Exposure Draft to its Task Force.
5. The Financial Instruments Task Force held two face to face meetings and two teleconferences. The following was discussed:
 - (a) Face to face meetings (H2 2018)
 - (i) Performed a detailed analysis of responses;
 - (ii) Discussed the accounting for each instrument; and
 - (iii) Agreed on guidance to be developed by staff.
 - (b) Teleconferences (Q2 2019)
 - (i) Reviewed exposure draft; and
 - (ii) Agreed unanimously to recommend the document for Board approval.

Exposure Period

6. Staff proposes releasing the document at the end of August 2019 to allow for minimal overlap with the IPSASB document currently out for exposure – CP, *Measurement*. Staff recommends setting a December 31, 2019 deadline for comments to allow for a 4-month exposure period.

Document Title

7. As the exposure draft amends guidance in IPSAS 41, staff proposes the title *Amendments to IPSAS 41, Financial Instruments*. However, this may not capture the PSSFI nature of the project. Staff also considered:
 - (a) [draft] IPSAS [X] (ED 69), *Public Sector Specific Financial Instruments*
 - (b) [draft] IPSAS [X] (ED 69), *Amendments to IPSAS 41, Financial Instruments, related to Public Sector Specific Financial Instruments*

Staff welcomes views from the IPSASB regarding the appropriate title for the document.

Decision required

The IPSASB is asked to:

- Confirm it is satisfied there are no additional issues to be discussed by the IPSASB at this time;
- Confirm the title of the document is appropriate;
- Approve [draft] IPSAS [X] (ED 69), *Amendments to IPSAS 41, Financial Instruments*, for comment; and
- Confirm an exposure period ending December 31, 2019.

Appendix A – [draft] IPSAS [X] (ED 69), Amendments to IPSAS 41, Financial Instruments

**Exposure Draft
August 2019
*Comments due: December 31, 2019***

IPSAS[®]

*Proposed International Public Sector Accounting
Standard[®]*

**Amendments to IPSAS 41,
*Financial Instruments***



International Public
Sector Accounting
Standards Board[®]



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In meeting this objective the IPSASB sets IPSAS™ and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Exposure Draft, *Amendments to IPSAS 41, Financial Instruments*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by December 31, 2019.**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Amendments to IPSAS 41 *Financial Instruments*

New text is underlined and deleted text is struck through.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

Introduction

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BC3. The IPSASB acknowledges that there are other aspects of financial instruments, insofar as they relate to the public sector, which are not addressed in IFRS 9. The IPSASB has undertaken separate projects on *Public Sector Specific Financial Instruments*, and *Revenue and Non-exchange Expenses*, to address:

- (a) Certain transactions undertaken by monetary authorities; and
- (b) Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature.

Public Sector Specific Financial Instruments

BC3A. In developing IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, the IPSASB identified several items which have public sector specific characteristics. The items identified during the initial financial instruments project as “public sector specific financial instruments” were:

- Monetary gold;
- Special Drawing Rights;
- International Monetary Fund (IMF) quota subscriptions;
- Currency in circulation;
- Statutory receivables / payables;
- Concessionary loans; and
- Financial guarantee contracts.

BC3B. Two public sector specific issues—concessionary loans and financial guarantee contracts issued through non-exchange transactions—are addressed in the application guidance in IPSAS 41. Both instruments meet the definition of a financial instrument. As statutory receivables and payables are not contractual, the Board agreed to address these instruments in the Revenue project.

BC3C. The Board agreed to address the remaining issues through a Public Sector Specific Financial Instruments project.

BC3D. In considering responses to its Consultation Paper: *Public Sector Specific Financial Instruments*, the Board agreed, where possible, that public sector specific financial instruments should be addressed in the current financial instruments standards.

BC3E. The Board developed additional implementation guidance for monetary gold, currency in circulation and special drawing rights. The Board noted the features of IMF quota

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subscriptions are consistent with those in Illustrative Example 32. The Board concluded that the additional illustrative examples and augmented implementation guidance provide appropriate guidance for accounting for instruments within the scope of the public sector specific financial instruments project.

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Gold Bullion

BC18. Gold bullion does not meet the definition of a financial instrument as defined in IFRS 9. Given the IPSASB proposals in its Public Sector Specific Financial Instruments project related to monetary gold, the IPSASB considered whether this was appropriate. The IPSASB noted that gold bullion has a wider meaning than monetary gold, and for entities that are not monetary authorities, the guidance is appropriate. The IPSASB therefore agreed to include Implementation Guidance B.1. ~~The IPSASB will reconsider this matter when it concludes its Public Sector Specific Financial Instruments project.~~

Monetary Gold

BC18A. As part of the Public Sector Financial Instruments project, the IPSASB considered accounting for gold held by monetary authorities as reserve assets that are available to monetary authorities in carrying out their mandates, i.e., monetary gold. Some constituents indicated the scope of IPSAS 41 should be expanded to include monetary gold as it shares several characteristics with a financial asset. For example, monetary gold is:

- a. Readily convertible into cash;
- b. Quoted globally in US dollars;
- c. Easily traded with willing counterparties (durable, divisible and portable);
- d. Accepted as a form of payment by some central banks; and
- e. A store of wealth.

Furthermore, monetary gold can be held:

- a. For its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets; and
- b. For an indeterminate period of time, because it provides confidence in the monetary authority's financial strength and ability to carry out its activities.

BC18B. In considering the responses to the Consultation Paper, *Public Sector Specific Financial Instruments*, the IPSASB confirmed its view that monetary gold is not a financial instrument. Although monetary gold is highly liquid, there is no contractual right to receive cash or another financial asset.

BC18C. The IPSASB also confirmed that the scope of IPSAS 41 should not be expanded. Nevertheless, the IPSASB noted that applying the principles in IPSAS 41 may be appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC18D. The IPSASB concluded that, while monetary gold shares many characteristics with a financial asset, the hierarchy set out in IPSAS 3 requires an entity to assess all facts specific to the circumstances related to the holding of monetary gold. Should an entity account for monetary

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gold using principles consistent with those applied to financial assets, the IPSASB expects all classification and measurement guidance required by IPSAS 41 to be applied.

BC18E. In evaluating whether applying the principles in IPSAS 41 to monetary gold is appropriate, the IPSASB also considered whether other IPSAS could be applied because they provide guidance on assets that share similar characteristics with monetary gold. The IPSASB considered the following:

- a) Property, plant and equipment share similar characteristics with monetary gold when monetary gold is held for an indeterminate period. This may occur when monetary gold is held to stabilize the economy. This is similar to holding property, plant and equipment to supply a good or service and is expected to be used during more than one period.
- b) Inventory shares similar characteristics with monetary gold when monetary gold is held for its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets. This is similar to commodity broker-traders, who seek to profit from fluctuations in prices, and trade margins and measure their inventories at fair value less cost to sell.
- c) Investment property shares similar characteristics with monetary gold when monetary gold is held for an indeterminate period or for its contribution to financial capacity because of its ability to be sold. When monetary gold is held because of its ability to be sold in a liquid market, it may be similar to holding investment property to earn rentals and/or for capital appreciation.

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Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 41.

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Section B Definitions

B.1 Definition of a Financial Instrument: Gold Bullion

Is gold bullion a financial instrument (like cash) or is it a commodity?

It is a commodity. Although bullion is highly liquid, there is no contractual right to receive cash or another financial asset inherent in bullion.

B.1.A Definition of a Financial Instrument: Monetary Gold

Is monetary gold a financial instrument (like cash)?

No. Similar to gold bullion, monetary gold is not a financial instrument as there is no contractual right to receive cash or another financial asset inherent in the item. However, given that monetary gold has many of the characteristics of a financial asset, applying principles set out in IPSAS 41 may be appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. It may however be appropriate to consider other IPSAS depending on the facts and circumstances related to the holding of monetary gold.

B.1.1 Public Sector Specific Financial Instruments

B.1.1.1 Definition of a Financial Instrument: Currency Issued as Legal Tender

Does issuing currency as legal tender create a financial liability for the issuer?

It depends. Currency derives its value, in part, through the statutory arrangement established between the issuer and the holder of the currency whereby currency is accepted as medium of exchange and is recognized legally as a valid form of payment. In some jurisdictions, this statutory arrangement further obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.

For the purposes of this Standard, an entity considers the substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash. Contracts are evidenced by the following:

- Contracts involve willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract; and
- The remedy for non-performance is enforceable by law.

When laws and regulations, or similar legislation enforceable by law, such as a bank act, set out the requirements and responsibilities of an entity to exchange outstanding currency, an obligation exists to deliver cash. A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Prior to currency being issued, there is no transaction between willing parties. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, *Inventories*, in accounting for any unissued currency.

B.1.1.2 Definition of a Financial Instrument: Special Drawing Rights (SDR) Holdings

Do Special Drawing Rights Holdings meet the definition of a financial asset?

Yes. SDR holdings represent a claim on the currencies of members of the International Monetary Fund (IMF). SD's can be used in transactions with the IMF or can be exchanged between participants of the IMF's SDR Department. Liquidity is guaranteed by a mechanism requiring participants to deliver cash in exchange for SDRs. Accordingly, SDR holdings are regarded as a financial asset.

B.1.1.3 Definition of a Financial Instrument: Special Drawing Rights (SDR) Allocations

Do Special Drawing Rights Allocations meet the definition of a financial liability?

Yes. SDR allocations represent the obligation assumed when SDR holdings are distributed to members. IMF members must stand ready to provide currency holdings up to the amount of their SDR allocation. This represents a contractual obligation to deliver cash. Accordingly, SDR allocations are regarded as a financial liability.

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Appendix B – Project Summary

Purpose

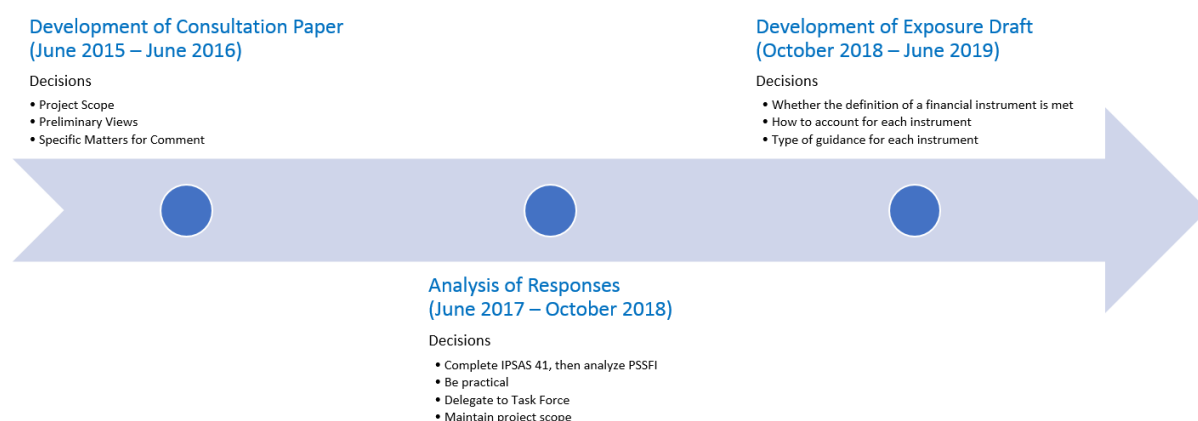
1. To provide the Board with context when considering the Task Force recommendations in [draft] IPSAS [X] (ED 69), *Amendments to IPSAS 41, Financial Instruments*.

Background

2. At its March 2018 meeting, the Board directed the Financial Instruments Task Force to:
 - (a) Review the responses to the Consultation Paper, *Public Sector Specific Financial Instruments*; and
 - (b) Develop an Exposure Draft for consideration by the Board.
3. The Task Force completed both tasks.

Detail

4. The PSSFI project has been ongoing since 2015. Over this period, numerous decisions have been made. Providing the Board with context into how the Exposure Draft was developed will aid in the Board's decision whether to approve the document.



Development of Consultation Paper (June 2015 – June 2016)

5. The project to develop the Financial Instruments suite of standards – IPSAS 28, IPSAS 29, and IPSAS 30 – identified several items which have public sector specific characteristics. A separate project was initiated to consider the appropriate accounting for those items.
6. The IPSASB published a [Consultation Paper: *Public Sector Specific Financial Instruments*](#), in July 2016 that considers the recognition and measurement from the perspective of the IPSASB Conceptual Framework, of the following instruments:
 - (a) Monetary gold;
 - (b) Currency in circulation;
 - (c) IMF quota subscription; and
 - (d) Special drawing rights.¹

¹ The project initially included concessionary loans, financial guarantee contracts, public sector securitizations and statutory payables/receivables. Except for statutory payables/receivables, these items were addressed in IPSAS 41. Statutory payables/receivables are being considered as part of the revenue and non-exchange expense projects.

Analysis of Responses (June 2017 – October 2018)

7. In June 2017 the IPSASB considered:
 - (a) A summary of responses²; and
 - (b) Input from members of the CAG³ on the project's scope. Given the lack of consensus on project scope in the CP responses, the CAG highlighted:
 - (i) That the CP scope should be followed,
 - (ii) The guidance developed should be aligned with the core financial instruments standards to the extent possible; and
 - (iii) The Board should take a pragmatic approach, rather than a conceptual approach to developing guidance in order to limit the use of board and staff resources.
8. Considering the CAG's advice and the summary of responses, the Board agreed the following decisions noted in **Table 1**.
9. The IPSASB revisited their decisions in March 2018 to provide staff with additional clarity and direction in developing an Exposure Draft. See **Table 1** below.

Table 1

IPSASB Decision (June 2017)	IPSASB Clarification (March 2018)
Decision 1. The full analysis of the responses to the CP should be considered together with the responses received to ED 62.	Approval of IPSAS 41 should occur prior to completing the analysis of the PSSFI CP responses.
Decision 2. It was agreed that staff should explore the options for dealing with transactions in the current financial instruments standards and provide a recommendation on the way forward (possibly to be included as either authoritative guidance or non-authoritative guidance).	Apply " Decision Tree " approach in determining the appropriate level of guidance to develop for each PSSFI
Decision 3. The IPSASB should provide staff with the flexibility to consider practical approaches to deal with the transactions in additional guidance in other standards, rather than seeking a perfect conceptual approach, given the very specific and complicated transactions in scope of the CP and the advice of CAG members.	Delegated: <ul style="list-style-type: none"> • Review of responses and developing project options; and • Developing the ED
Decision 4. The scope of the project should not be broadened.	The project scope as outlined in June 2017 should be maintained.

² The June 2017 Issues Paper on the high level response analysis to the Consultation Paper, *Public Sector Specific Financial Instruments* can be found here: <http://www.ipsasb.org/system/files/meetings/files/Public-Sector-Financial-Instruments-Issues-Paper-June-2017-Issues.pdf>.

³ The June 2017 CAG Paper on the scope of the PSSFI project: http://www.ipsasb.org/system/files/meetings/files/Agenda-Item-6-Public-Sector-Financial-Instruments-CAG-Paper_Final.pdf.

Development of Exposure Draft (October 2018 – June 2019)

10. The Financial Instruments Task Force met in person twice in the second half of 2018:
- (a) September 2019 (prior to September IPSASB meeting)

One day meeting was held to discuss initial Task Force views in preparation for the October face to face meeting.
 - (b) October 2019 (face to face meeting Amsterdam)

Three day meeting where the Task Force:

 - Performed a detailed analysis of responses;
 - Discussed transaction level detail for each instrument; and
 - Agreed on guidance to be developed by staff.
11. The Task Force agreed the Exposure Draft should provide guidance on whether PSSFI meet the definition of a financial instrument (this resulted in a 9 page Exposure Draft). In reaching this conclusion, the Task Force considered:
- (a) Direction from the IPSASB

The IPSASB directed the Task Force to be pragmatic in their approach in developing guidance for PSSFI and to develop guidance in the context of IPSAS 41 where possible.
 - (b) Consistency with IPSAS 41

Illustrative guidance in IPSAS 41 is developed to illustrate a specific principle as opposed to illustrating how to account for a particular instrument. There are many complex instruments within the scope of IPSAS 41. However, none of these instruments have specific examples developed for them.
 - (c) Key issue facing constituents

The objective of the project is to determine the appropriate accounting treatment for PSSFI. Where PSSFI are in scope of IPSAS 41, 400 pages of accounting guidance exists.

Furthermore, in discussing the transaction level detail of each instrument, the Task Force noted the complexity of the instruments. Having discussed the transaction level detail in the context of IPSAS 41, the Task Force is confident principles in IPSAS 41 are clear in how to account for PSSFI. Therefore, the Task Force concluded additional clarification is unnecessary and it was not the role of the Board to interpret the application of its own principles for each PSSFI.

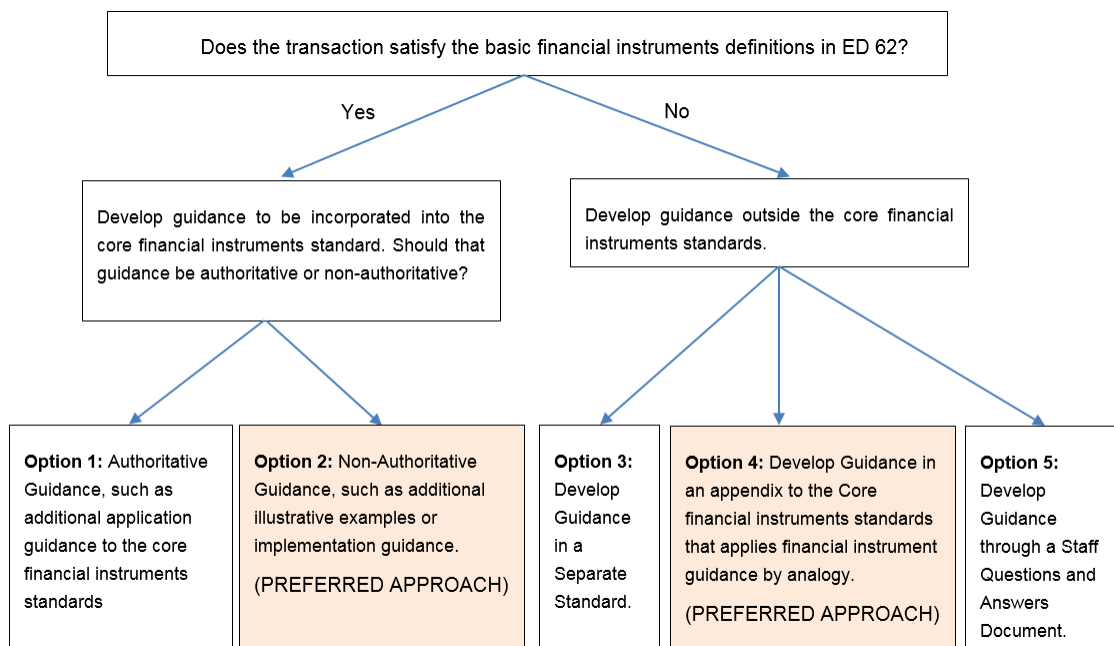
Appendix C – IPSASB Decision Tree to Determine Approach to Developing Guidance for PSSFI Transactions (March 2018)

Purpose

1. To outline the IPSASB approved Decision Tree that the Task Force will apply in determining the type of guidance that should developed for PSSFI.

Detail

2. The IPSASB reviewed this Decision Tree at its March 2018 meeting. The IPSASB concluded Option 2 and Option 4 were the preferred options for the Task Force to pursue.



Options Explained with Staff Analysis (Excerpt from March 2018 IPSASB Paper)

3. Option 1—Authoritative Guidance, such as additional application guidance added to the new financial instruments standard based on ED 62.
 - (a) Staff Analysis. This option would mean developing additional application guidance for those instruments that satisfy the financial instruments definitions to help those in applying the principles to the transactions. The staff view is that developing additional application guidance in the core financial instruments standards may be time consuming and resource intensive, further it is unlikely to be feasible for all of the PSSFI transactions.
4. Option 2—Non-Authoritative Guidance, such as additional illustrative examples and implementation guidance incorporated into non-authoritative material of the new financial instruments standard based on ED 62.
 - (a) Staff Analysis. This option would mean developing additional guidance in the core financial instruments standard in the non-authoritative sections (illustrative examples and implementation guidance). This approach is likely to be more pragmatic than option 1, as it would not require modifications to the core principles. However, it is questionable if non-authoritative guidance would be appropriate for all PSSFI transactions, as even guidance

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in the non-authoritative portion of the standards should satisfy the core financial instruments definitions.

5. Option 3—Guidance in a separate standard that builds off of the new financial instruments standard based on ED 62.
 - (a) Staff Analysis. This option would be to develop a separate standard that compliments the core financial instruments standard. It would have a limited scope and address only the transactions in the PSSFI project. This option would require the most resources, as it would require full definitions and recognition, measurement and disclosure requirements, along with other supporting material. It is questionable if this approach is consistent with the approach agreed by the IPSASB to be pragmatic.
6. Option 4—Develop Guidance in an appendix to the Core financial instruments standards that applies financial instrument guidance by analogy.
 - (a) Staff Analysis. This option could be undertaken for those items which do not satisfy the basic financial instruments definitions. An appendix could be developed that sets requirements by analogy, drawing upon the guidance in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* in paragraph 14 that states “...management shall refer to, and consider the applicability of, the following sources in descending order: (a) The requirements in IPSASs dealing with similar or related issues; and (b) The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other IPSASs.” Staff notes that the IASB has taken a similar approach in IFRIC 12, *Service Concession Arrangements* in BC 14, where it notes that application by analogy would be appropriate under the IASB hierarchy when dealing with private-to-private partnerships, which have not been addressed in IFRIC 12 (which deals with public-to-private partnerships).
7. Option 5—Develop guidance through a staff questions and answers document.
 - (a) Staff Analysis. This is the least resource intensive option and the most pragmatic approach. However, it is questionable if this is considered guidance and would be appropriate to address the transactions in the PSSFI project.