

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: July 28, 2020

Agenda Item 1

For:

- ☐ Approval
☒ Discussion
☐ Information

PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS (PSSFI)

Project summary	To consider the appropriate accounting treatment for items in scope of the public sector specific financial instruments project.	
Task Force members	<ul style="list-style-type: none"> Marc Wermuth, IPSASB Member (<i>Task Force Chair</i>) Dr. James Jung, IPSASB Member Leona Melamed, IPSASB Technical Advisor Jani Laakso, International Finance Corporation Jeanine Poggiolini, Accounting Standards Board, South Africa 	
Meeting objectives	Topic	Agenda Item
Project management	PSSFI: Project Roadmap	1.1.1
	Instructions up to Previous Meeting	1.1.2
	Decisions up to Previous Meeting	1.1.3
Decisions required at this meeting	Process to Review Comments Received on ED 69, Amendments to IPSAS 41, <i>Financial Instruments</i>	1.2.1
	Analysis of Responses to the PSSFI Exposure Draft	1.2.2
Other supporting items	Amendments to IPSAS 41: Project Summary	1.3.1
	ED 69, Amendments to IPSAS 41, <i>Financial Instruments</i>	1.3.2

PSSFI:
PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
June 2019	1. Approve Exposure Draft for comment 2. Decision on exposure period
September 2019	1. Out for comment
December 2019	1. Out for comment
July 2020	1. Review responses to ED 2. Discussion of Issues
September 2020	1. Approve final pronouncement

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
July 2020	1. All instructions provided up until June 2019 were reflected in the Exposure Draft on Public Sector Specific Financial Instruments, Amendments to IPSAS 41, Financial Instruments.	1. All instructions provided up until June 2019 were reflected in the Exposure Draft on Public Sector Specific Financial Instruments, Amendments to IPSAS 41, Financial Instruments.

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
July 2020	1. All decisions made up until June 2019 were reflected in the Exposure Draft on Public Sector Specific Financial Instruments, Amendments to IPSAS 41, Financial Instruments.	1. All decisions made up until June 2019 were reflected in the Exposure Draft on Public Sector Specific Financial Instruments, Amendments to IPSAS 41, Financial Instruments.

Process to Review Comments Received on ED 69, *Amendments to IPSAS 41, Financial Instruments*

Purpose

1. To summarize the process followed to analyze comments received on Exposure Draft (ED) 69, *Amendments to IPSAS 41, Financial Instruments*.

Background

2. Significant progress has been made on the project to develop accounting guidance for public sector specific financial instruments (PSSFI) since its inception in 2015, thanks to collective efforts from the IPSASB and CAG members¹, and input from constituents.
3. In March 2018, the IPSASB reached several key decisions and agreed on the approach to take the project forward. These decisions along with CAG members' input have been consistently applied in the development of ED 69, and have been considered by the Financial Instruments Task Force (Task Force) in the analysis of responses and in forming the recommendations on the draft *Amendments to IPSAS 41* pronouncement:
 - (A) **Maintain the existing scope of the project;**
 - (B) **Focus on areas where existing accounting guidance is insufficient;**
 - (C) **Be pragmatic and succinct in developing any new guidance; and**
 - (D) **Develop guidance in the context of IPSAS 41, where in scope as a financial instrument, rather than as a separate standard.**
4. These key IPSASB decisions were integral in progressing the project from the Consultation Paper to the focused ED issued in August 2019.
5. The Board received 19 responses to ED 69. Staff analyzed each response with the key decisions in mind and presented this analysis to the Task Force. See [Agenda Item 1.2.2](#) for the detailed analysis.

Task Force Decisions

6. The Task Force held a virtual meeting in July 2020, and was provided with all responses to the ED, along with staff's detailed analysis, to support its detailed review. The Task Force agreed with the staff analysis and formed recommendations for the IPSASB on the *Amendments to IPSAS 41* pronouncement.

Approval of Amendments to IPSAS 41

7. Staff has attached a marked-up version of the *Amendments to IPSAS 41* in [Agenda Item 1.3.2](#). A final draft will be brought back in September 2020 for Board approval, which will reflect:
 - (a) Any instructions provided by the IPSASB at the July 2020 virtual meeting;
 - (b) Development of a Basis for Conclusions paragraph(s) summarizing the IPSASB July 2020 decision(s); and

¹ In accordance with Due Process, the CAG was updated on the status of the project at its June 2020 meeting.

- (c) Program and Technical Director assertion that due process has been followed.

Decision Required

- 8. No decision required. For information purposes only.

Analysis of Responses to the PSSFI Exposure Draft

Question

1. Does the IPSASB agree with the Task Force's recommendations on how to action the responses to the PSSFI Exposure Draft?

Recommendation

2. The Task Force recommends:
 - (a) **Writing a Basis for Conclusion.** Explain Board's decisions leading from the Consultation Paper (CP) to the Exposure Draft (ED) 69;
 - (b) **Developing a Staff Q&A document.** Provide an overview of the instruments, plain language accounting, examples, and journal entries; and
 - (c) **Processing minor wording changes.** Clarify existing guidance.
3. The amendments to IPSAS 41 will be presented at the September 2020 Board meeting for approval.

Background

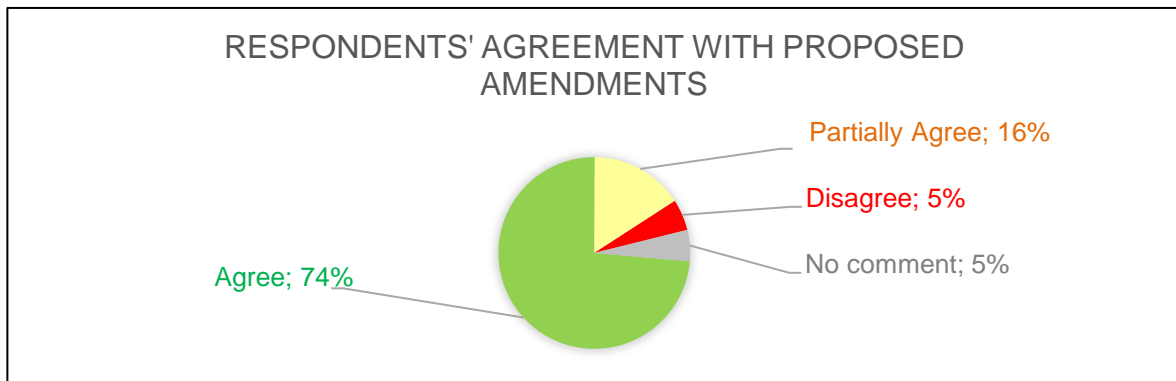
4. In August 2019, the IPSASB issued ED 69 for Public Sector Specific Financial Instruments (PSSFI) which proposed additional non-authoritative guidance in IPSAS 41, *Financial Instruments*, to clarify the requirements for classifying, recognizing, and measuring PSSFI. The proposed guidance in ED 69 relates to:
 - (a) Monetary gold;
 - (b) Currency in circulation, and
 - (c) Special Drawing Rights (SDRs).

ED 69 does not include guidance for IMF quota subscriptions as existing guidance was deemed appropriate.

Analysis

Overall response

5. IPSASB received 19 responses to ED 69 to guide it in developing amendments to IPSAS 41.
 - (a) Majority of responses (14) agreed with proposed changes, of which four had minor comments.
 - (b) Three responses partially agreed with proposed changes, with minor comments.
 - (c) One response indicated that they did not agree with the proposed amendments to IPSAS 41. The comments relate to select sections of the ED, rather than the ED as a whole. Specifically, the comments are around the documentation for monetary gold and currency in circulation, assessed in detail below.
 - (d) One response did not explicitly agree nor disagree with the proposed changes in the ED.
- See analysis of respondents by Region, Function, and Language in Appendix B.



Comments – General themes

6. Staff identified general themes raised in the comments:

- (a) **Expand on or move existing documentation** – requested that IPSASB incorporate additional documentation relating to descriptions, rationale, or clarifications, or proposed different locations for guidance in the IPSAS.
- (b) **Scope considerations** – proposed that the IPSASB consider scoping as follows:
 - (i) Conduct separate projects (i.e. carve out one of the four PSSFI identified, or begin similar investigation for a new PSSFI), or
 - (ii) Consider subtypes/categories within the four PSSFI.
- (c) **References to other IPSAS** – requested that the IPSASB consider the intersection of IPSAS 41 with other IPSAS.
- (d) **Consistency with GFS** – requested that the IPSASB align definitions and descriptions for several PSSFI with those in GFS.

Staff recommends the following in response to each theme (see detailed recommendations by comment letter in Appendix A).

Agenda Item 1.2.2

General theme	Comment letter(s)	Summary of Recommendation
Expand on or move existing documentation	3, 4, 6, 8, 9, 10, 12, 17, 18, 19	<ul style="list-style-type: none"> • Develop a Staff Q&A document. Provide an overview of the instruments, plain language accounting, examples, and journal entries. • Process minor wording changes. Incorporate clarification in IE211 (Example 32) on similar international organizations that issue subscription rights. • Process minor wording changes. Incorporate wording change to BC18A from “monetary authorities” to “them”. • Write BC. Explain Board’s rationale for not incorporating all the CP’s analysis into the ED.
Scope considerations	1, 10, 13, 18	<ul style="list-style-type: none"> • No action necessary.
References to other IPSAS	9, 10, 17	<ul style="list-style-type: none"> • Process minor wording changes. Incorporate modified version of proposed wording to consider IPSAS 19 where no financial liability exists.
Consistency with GFS	6	<ul style="list-style-type: none"> • No action necessary.

Decision Required

7. Does the IPSASB agree with Task Force’s recommendations?

Appendix A – Detailed Analysis of Responses

The following table summarizes Staff's analysis of the responses received, and identified next steps, where appropriate.

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
1 – Mazedul Islam	No comment	Scope	Goodwill should also be referred to as a financial instrument.	No action necessary. Goodwill is not a financial instrument because goodwill is not a contract that gives rise to both a financial asset of one entity, and a financial liability or equity instrument of another entity. In other words, it does not meet the definition of a financial instrument per IPSAS 28.
2 – CIPFA	Agree	-	-	No action necessary.
3 – ASB South Africa	Agree	Documentation	Natural Treasury found the accounting entries in CP helpful, and requested additional information in either a staff paper or FAQ to reflect decisions in the ED. Consider visibility and clarity for users on where to find non-authoritative guidance for the four PSSFI.	Develop Staff Q&A document. Include: <ul style="list-style-type: none"> - An overview of each instrument (gold, currency, IMF instruments); - Plain language accounting; - Examples; and - JEs.
4 – CPA Australia	Agree	Documentation	<i>Monetary gold and gold bullion:</i> Add more detailed descriptions of gold bullion and monetary gold.	No action necessary. The IPSASB agreed PSSFI would not be defined as CP respondents do not have issues determining whether they hold monetary gold.

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
			<p><i>Monetary gold:</i></p> <p>Provide examples of “facts and circumstances related to [an entity’s] holding of monetary gold”.</p>	<p>No action necessary.</p> <p>Facts and circumstances are unique to each entity and additional guidance may result in restrictive application by users. The inclusion of specific examples would also require details from each geography as examples would not work for all jurisdictions.</p> <p>Furthermore, responses to the CP indicated entities that hold monetary gold do not face challenges in determining their reason for holding monetary gold, which indicates that existing guidance is sufficient.</p>
5 – HoTARAC	Agree	-	-	No action necessary.
6 – ICGFM	Partially agree	Documentation	<p><i>Monetary gold:</i></p> <ul style="list-style-type: none"> - Clarify definition of effective control, as there is an issue concerning monetary gold stored by a monetary authority of another jurisdiction. 	<p>No action necessary.</p> <p>Effective control is not used in the ED. It appears to be a term applied in GFS. The IPSASB agreed PSSFI would not be defined as CP respondents do not have issues determining whether they hold monetary gold, and presumably who controls it. Proposed guidance is intended to address accounting issues only.</p>

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
		Documentation	<p><i>Monetary gold:</i></p> <ul style="list-style-type: none"> Propose additional documentation, that “monetary authority’s statement should disclose volume of gold located on deposit in other organizations and confirm that monetary authority receives a certificate from independent auditor of such organizations.” 	<p>No action necessary.</p> <p>ED 69 concludes monetary gold is not a financial instrument. If constituents decide to apply the requirements of IPSAS 41 to monetary gold, the entity would apply the existing accounting and disclosure requirements related to financial instruments. No new requirements are proposed as the IPSASB concluded PSSFI should be addressed, to the extent possible, within the context of IPSAS 41.</p>
		Documentation	<p><i>Currency in circulation:</i></p> <p>Treatment of currency held by foreign entities as a liability is up to discretion of entity; should be clearly a liability as principle of symmetry (and in alignment with GFS).</p>	<p>No action necessary.</p> <p>An entity is to consider facts and circumstances for any currency in circulation held by foreign entities to determine if a financial liability exists. Principles are clear in the current IPSAS 41.</p>
		GFS consistency	<p><i>Monetary gold:</i></p> <ul style="list-style-type: none"> Current definition implies that treatment depends on country-specific circumstances, which is not consistent with GFS. <p><i>Gold bullion:</i></p> <ul style="list-style-type: none"> Not consistent with GFS, which distinguishes gold bullion held as monetary gold vs. gold bullion held for other purposes. Not consistent with GFS, which considers gold bullion not held as reserve asset to be a financial asset (whereas proposed ED does not). 	<p>No action necessary.</p> <p>The IPSASB considered GFS when developing accounting guidance to minimize unnecessary differences. Alignment is not appropriate in this circumstance because gold (monetary or bullion) does not meet the definition of a financial instrument in IPSAS 41. The distinction does not change accounting treatment. Furthermore, CP respondents do not have issues determining whether they hold monetary gold.</p>
7 – PSASB	Agree	-	-	No action necessary.

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
8 – ICAEW	Agree	Documentation	<p><i>IMF quota subscriptions:</i></p> <p>Incorporate specific reference to IMF quota subscriptions in AG as a clearer signpost. Current documentation only appears in IE211-214 (Example 32) and could be missed. Current wording is not clear on what “similar organizations” exist that would issue quota subscriptions. There is no clarity for reader on why IE211 proposed until BC3E.</p>	<p>Process minor wording changes. Incorporate clarification in IE211 (Example 32).</p> <p>It is not appropriate to add an AG because the guidance does not expand on existing principles, but rather, provides a case-specific illustration to help users in applying IPSAS 41 to this PSSFI. To help clarify, staff recommends adding a footnote after “or similar international organization” in IE211, as follows:</p> <p><i>“An example of a similar international organization that issues such instruments includes the International Monetary Fund (IMF quota subscriptions).”</i></p>
		Documentation	<p><i>Other:</i></p> <p>Add definitions of the instruments to the IGs since the headings refer to “definitions”. Add references to relevant statistical manuals (such as BPM6).</p>	<p>No action necessary.</p> <p>When approving the ED, the IPSASB concluded the scope of the project should be limited to applying IPSAS 41, and that PSSFI were not to be defined.</p>
		Documentation	<p><i>Other:</i></p> <p>Include the PSSFI types in AGs, similar to treatment of the two other PSSFI already addressed (concessionary loans and financial guarantee contracts issued through non-exchange transactions).</p>	<p>No action necessary.</p> <p>Concessionary loans and financial guarantee contracts are generic financial instrument transactions. AGs were developed to clarify how the principles are applied broadly to account for concessionary loans. In comparison, the PSSFIs included in the ED are specific transactions (gold, IMF instruments and currency). The IPSASB concluded that additional guidance is required to assist users in determining whether they are financial instruments, and not to clarify how the principles are to be applied broadly to account for them (which was considered sufficient in IPSAS 41).</p>

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
9 – SRS	Partially agree	Other IPSAS	<p><i>Currency in circulation:</i></p> <p>Revise current documentation in IG, B.1.2.1 to encourage users to also consider whether, on a case-by-case basis, an obligation may be a provision that arises on basis of sovereign activity, outside the scope of the user's influence, which would be a provision under IPSAS 19 rather than financial liability per IPSAS 41.</p>	<p>Process minor wording changes.</p> <p>Add guidance referencing IPSAS 19 in cases where there is no financial liability. Add suggested wording (underlined below) to address circumstances where a sovereign activity creates an obligation.</p> <p>B.1.2.1 ...</p> <p><i>When laws and regulations or similar requirements enforceable by law, such as a banking act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a “contract” exists for the purposes of this Standard. 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. <u>Where no financial liability exists, an entity should consider whether an obligation is created in accordance with paragraphs 22-43 of IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.</u></i></p> <p><i>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.</i></p>

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
		Documentation	<p><i>Currency in circulation:</i></p> <p>Reorder B.1.2.1. Incorporate clarification to cases where laws and regulations or similar legally enforceable requirements sets a responsibility to exchange outstanding currency. Specifically, clarify that an entity should first consider whether a contract and therefore a financial liability exists.</p>	<p>No action necessary.</p> <p>The purpose of the example is to illustrate which currency arrangements fall within the scope of IPSAS 41. Staff recommends no amendments in order to focus the guidance on whether there is a contract, instead of whether a liability exists.</p>
10 – JICPA	Disagree	Documentation	<p><i>Monetary gold:</i></p> <p>Describe as “gold held by monetary authorities as reserve assets that are available to them in carrying out their mandates” in BC18A.</p>	<p>Process minor wording changes.</p> <p><i>BC18A ...</i></p> <p><i>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 them 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. ...</i></p>
		Documentation	<p><i>Monetary gold:</i></p> <ul style="list-style-type: none"> - Clarify description of monetary gold, that it is not held for sale or distribution in ordinary course of operations. - Clarify to clearly differentiate from gold bullion. 	<p>No action necessary.</p> <p>The IPSASB agreed PSSFI would not be defined as CP respondents do not have issues determining whether they hold monetary gold.</p>

		Documentation	<p><i>Monetary gold:</i></p> <p>Explain rationale for eliminating “physical gold” from the monetary gold description in the ED.</p>	<p>Write Basis for Conclusions.</p> <p>BC3D and BC3E summarize the IPSASBs decision to address PSSFI in IPSAS 41 where possible. This decision reduced the scope of the project, and reduced detailed definitions and explanations of the instruments. Staff recommends expanding the existing BCs to capture (1) the rationale for eliminating this description, and (2) the rationale for measurement guidance from Comment letter #19:</p> <p><i>Respondents to <u>Consultation Paper (CP), Public Sector Specific Financial Instruments (issued in July 2016)</u> indicated:</i></p> <ul style="list-style-type: none"> - <i>Several PSSFI met the definition of a financial instrument in IPSAS 41 and therefore should be addressed in existing guidance; and</i> - <i>Specific responses to Preliminary Views (PVs) and Specific Matters for Comments (SMCs) in the CP were consistent with existing IPSAS 41 accounting.</i> <p><i>Based on these responses, the IPSASB concluded the analysis reflected in the CP was useful, and allowed the Board to determine the approach. However, it was not necessary to carry forward the analysis to the amendments to IPSAS 41 as principles consistent with responses to the CP already existed in IPSAS 41. The IPSASB noted while definitions were not necessary, additional non-authoritative guidance would help users identify these specific financial instruments. In consultation with constituents, the IPSASB concluded the output of the project should focus on the application of IPSAS 41 to PSSFI within the scope of the CP and this scope should not be expanded. PVs on recognition</i></p>
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Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
				<i>and measurement of PSSFI was not replicated as sufficient guidance on recognition and measurement exist in IPSAS 41.</i>
		Other IPSAS	<p><i>Monetary gold:</i></p> <p>Update hierarchy guidance in IG, B.1.1 to first apply IPSAS 12 consistent with other types of physical gold.</p>	<p>No action necessary.</p> <p>In June 2019, the IPSASB considered other standards under which monetary gold could be accounted for. BC guidance summarizing these considerations was removed from the BCs as it was not considered helpful for constituents. Current guidance in the ED (IG, B.1.1) is clear and requires an entity to consider facts and circumstances to determine the appropriate IPSAS.</p>
		Documentation	<p><i>Currency in circulation:</i></p> <ul style="list-style-type: none"> - Explain Board's process in reaching the IG, B1.2.1 conclusion that currency issued as legal tender results in legal liability in the BC. - Add description of currency in circulation from CP Paragraph 1.6 as a BC. 	<p>No action necessary.</p> <ul style="list-style-type: none"> - IG, B1.2.1 does not conclude currency issued as legal tender results in legal liability. Rather, B1.2.1 indicates what evidences a contract and how that creates a financial liability. - The IPSASB concluded no definitions would be included in these amendments as the instruments would be addressed within IPSAS 41 as appropriate. Furthermore, the IPSASB agreed PSSFI would not be defined as CP respondents do not have issues determining these instruments.

		Documentation	<p><i>Currency in circulation:</i></p> <p>Modify wording and order of IG, B.1.2.1 as follows:</p> <ul style="list-style-type: none"> - Reorder paragraphs 2 and 3. In binding arrangements, laws have stronger binding power than contracts. Reorder to first explain the requirements enforced by laws before guidance to consider substance rather than form. - Modify paragraph 2 on substance over legal form to <i>"When no requirements enforced by laws and regulations exist, substance should be considered in determining whether contractual obligations exist."</i> - Replace "contract" with "binding arrangement". - Simplify "at this point, two willing parties have agreed to the terms of the arrangement" by replacing with "based on the contract". - Replace "between willing parties" with "based on the contract". 	<p>No action necessary.</p> <ul style="list-style-type: none"> - <i>Reorder paragraphs</i> – The purpose of the example is to illustrate whether there is a contract. Reordering the paragraphs reduces the prominence. - <i>Modify paragraph 2</i> – The proposed wording does not enhance what is currently written: <i>"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."</i> - <i>Replace "contract"</i> – The purpose of B.1.2.1 is to explain when a <u>contract</u> exists in substance. It is inappropriate to switch to binding arrangement. - <i>Simplify "two willing parties"</i> – The proposed wording assumes all currency arrangements are contracts. However, the purpose of the example is to illustrate that this is not the case (i.e. not all currency arrangements are contracts). No proposed changes to current wording: <i>"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."</i> - <i>Replace "two willing parties"</i> – Existing wording, such as use of "between willing parties," is consistent with other IPSAS and public sector considerations.
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Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
		Scope	<i>Other:</i> Consider other obligations incurred by monetary authorities.	No action necessary. The IPSASB confirmed the scope should remain narrow and be limited to the PSSFI identified in the CP. This would be outside the scope of the project.
11 – PSAB	Agree	-	-	No action necessary.
12 – NBAA	Agree	Documentation	<ul style="list-style-type: none"> - Provide extra guidance to specific related standards when IPSAS 3 – <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, paragraph 9-15 are to be used for gold and monetary gold. - Update guidance to clarify a clear-cut principle to be applied to reflect gold and monetary gold that are highly and readily convertible into cash in financial statements. 	No action necessary. In June 2019, the IPSASB considered BCs that identified other IPSAS that may be appropriate to apply when accounting for monetary gold. The IPSASB concluded this guidance was not useful to users. Instead, information could be provided in the Staff Q&A.
13 – CFC	Agree	Scope	Develop another PSSFI project to address remaining issues, such as currency in circulation without obligation.	No action necessary. The IPSASB confirmed the scope should remain narrow and be limited to the PSSFI identified in the CP. This would be outside the scope of the project.
14 – ICPAK	Agree	-	-	No action necessary.
15 – PAFA	Agree	-	-	No action necessary.
16 – ICAN	Agree	-	The respondent requested, on a general note, that the Board reach out to emerging economies on the implementation of IPSAS and also provide future documents tailored for these regions.	Develop Staff Q&A document. Staff will issue a Q&A (concurrent with comment letter #3).

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
17 – MIA	Agree	Documentation	<p><i>Monetary gold:</i></p> <p>Add definition of monetary authorities to enable entities to determine whether it is or is not a monetary authority.</p>	<p>No action necessary.</p> <p>The IPSASB concluded PSSFI should be addressed within the scope of IPSAS 41. No additional definitions were to be developed.</p>
		Other IPSAS	<p><i>Currency in circulation:</i></p> <p>Delete last sentence of IG, B.1.2.1 which requires entity to apply IPSAS 12 paragraph 13 to unissued currency. Unissued currency should not be accounted for by applying IPSAS 12, as IPSAS 12.2(d) includes a scope exception for work in progress of services. Unissued currency is a work in progress of the monetary authority in providing a service of currency circulation.</p> <p>IPSAS 12.2(d) states:</p> <p>(d) Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients.</p> <p>IPSAS 12.13 states:</p> <p>13. Where the government controls the rights to create and issue various assets, including postal stamps and currency, these items of inventory are recognized as inventories for the purposes of this Standard. They are not reported at face value, but measured in accordance with paragraph 15, that is, at their printing or minting cost.</p>	<p>No action necessary.</p> <p>Unissued currency would not meet the scope exclusion in IPSAS 12.2(d) as it is not work-in-progress, not a service, and not provided for no or nominal consideration. Rather, the issuance or non-issuance of currency is not a factor of whether it is a finished good, but who holds it (the issuer, or the recipient). In comparison, work-in-progress currency is comprised of notes or coins that are not yet complete and not ready for issuance. The statement in the ED is necessary to direct an entity to consider IPSAS 12, paragraph 13 when accounting for unissued currency.</p>

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
18 – CIGAR	Partially agree	Scope	<p><i>General:</i></p> <ul style="list-style-type: none"> - Run two separate projects for monetary gold and currency in circulation to address definition section to (a) be more precise, (b) prevent from diversity in practice, (c) mitigate potential hazard of non-authoritative guidance becoming authoritative in fact, if not in principle. - Agrees no further guidance for concessionary loans and financial guarantee contracts. 	<p>No action necessary.</p> <p>The IPSASB confirmed the scope should remain narrow and be limited to the PSSFI identified in the CP. This would be outside the scope of the project.</p>
		Documentation	<p><i>Monetary gold:</i></p> <p>Conduct individual project because:</p> <ul style="list-style-type: none"> - Option to account for gold as financial asset would suggest use of current values that have been highly speculative. This leads to material fluctuations that undermine true and fair view of government finances through unrealized gains and losses on gold reserves. Monetary gold serving as reserve asset should be measured at amortized cost for the sake of accountability, and analogous with land held as a reserve asset under IPSAS 17, as changes in fair value do not reflect any kind of “performance”. - Current guidance provides a broad range of measurement options that will result in diversity in practice. 	<p>No action necessary.</p> <p>It is appropriate for an entity to account for gold at fair value when it decides to apply IPSAS 41. Most respondents to the CP supported measuring monetary gold at market value. No respondents supported historical cost (though some supported a policy choice based on an entity’s unique facts and circumstances).</p>

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
		Scope	<p><i>Currency in circulation:</i></p> <p>Conduct individual project to address open issues on:</p> <ol style="list-style-type: none"> 1) Issued currency where central bank buys government debt securities against the issue, leading to double counting 	<p>No action necessary.</p> <p>The IPSASB confirmed the scope should remain narrow and be limited to the PSSFI identified in the CP. This would be outside the scope of the project.</p>
		Scope	<p><i>Currency in circulation:</i></p> <p>Conduct individual project to address open issues on:</p> <ol style="list-style-type: none"> 2) Issued currency without such a purchase of debt securities. Currency held by third parties generally consist of fiat money, which would be an in-kind conversion at nominal value (i.e. old currency to new currency at par) that does not in substance involve any “real” financial promise or obligation concerning the economic value of the currency or conversion. As such, it should not be recorded as a liability. A financial liability is only created when laws and regulations require the issues to convert currency into another financial asset. 	<p>No action necessary.</p> <p>The IPSASB confirmed the scope should remain narrow and be limited to the PSSFI identified in the CP.</p> <p>In addition, IPSAS 28.AG10 indicates currency is a financial asset as it is a medium for exchange. As such, fiat money would still create an obligation to the issuer to be considered under existing IPSAS 41 guidance. This would be outside the scope of the project.</p>
		Documentation	<p><i>Currency in circulation:</i></p> <p>Differentiate analysis of issued currency by:</p> <ol style="list-style-type: none"> 1) Transactions aside from unissued currency, such as currency issued against government debt securities, and other issuance of currency, and; 2) Systems, such as fiat money regimes. 	<p>No action necessary.</p> <p>IPSASB agreed to limit the scope to the PSSFIs identified in the CP. This included whether a liability exists when currency is issued. What the currency is exchanged for (gov debt securities, bank securities, etc.) does not impact the liability assessment; nor does the fact it is a fiat currency. Considering these issues would expand the scope of the project, which the IPSASB rejected.</p>

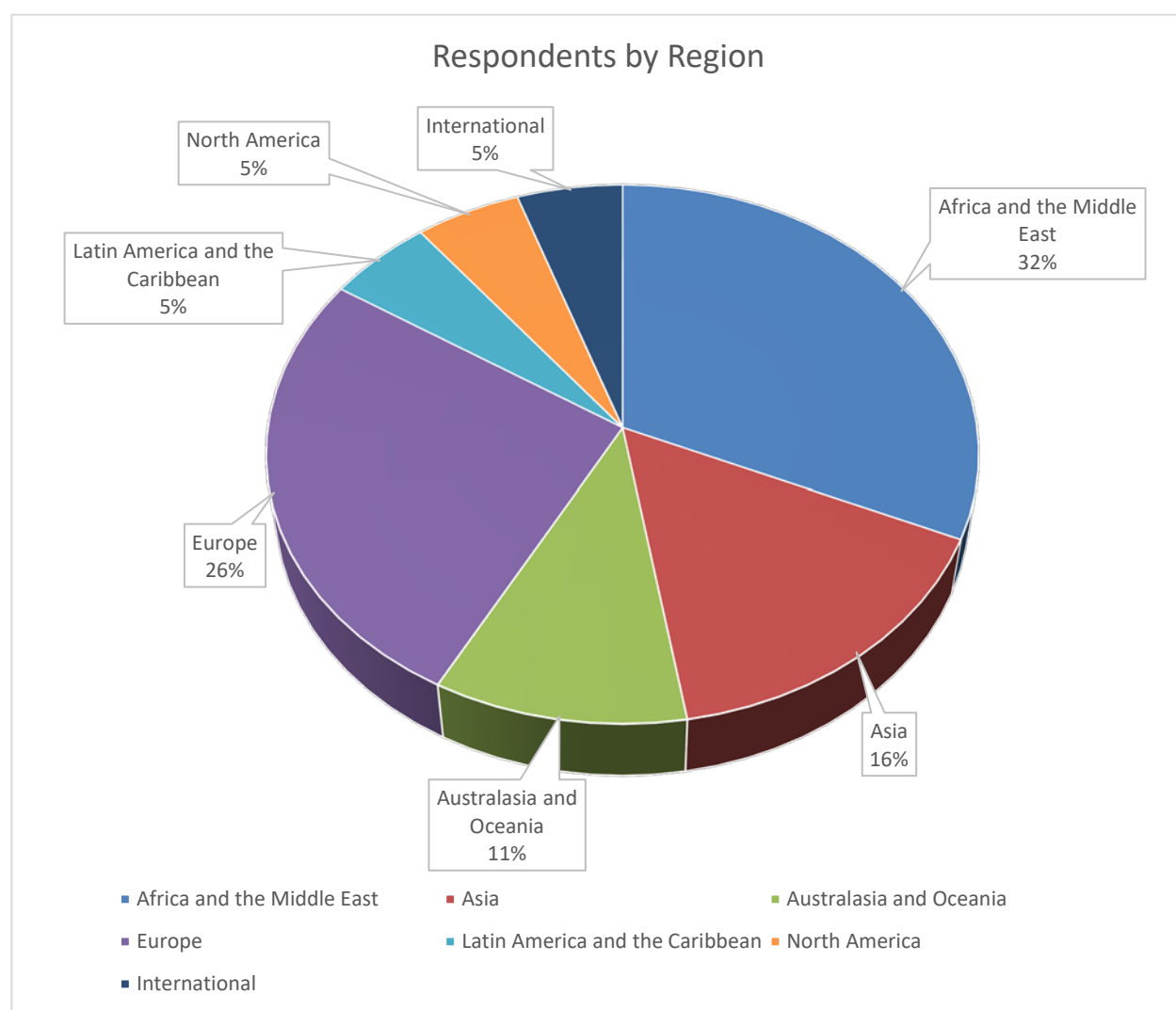
Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
		Documentation	<i>Currency in circulation:</i> Emphasize substance over form considerations in fiat money regimes when assessing whether the existence of a contract leads to a financial liability when an entity issues currency to a counterparty.	No action necessary. This is already in IG, B1.2.1.
		Documentation	<i>Currency in circulation:</i> Clarify the point in time when printed, coined, or digital e-currency changes from inventory to issued currency.	No action necessary. B.1.2.1 currently indicates IPSAS 12 applies to unissued currency. Further clarification is not required.
19 – CNOCP	Agree	Documentation	<i>Monetary gold:</i> Add common characteristics that monetary gold shares with financial instruments to B.1.1 (potentially move some of items in BC18A to B.1.1).	No action necessary. The IPSASB adequately explained its rationale on the common characteristics in the BCs. Additional clarification in the IGs is not required.

Comment letter	Agree with ED 69?	Additional comments?	Specific comments	Recommendation
		Documentation	<p><i>IMF quota subscriptions:</i></p> <p>Consider addressing IMF quota subscriptions in B.1.1 as well, and discuss whether they met definition of financial instrument. B.1.1. would be easier reference and more consistent than retaining in IE211.</p>	<p>No action necessary.</p> <p>The IPSASB's intention is to create guidance to address issues that currently lack clarity in the existing IPSAS 41 guidance. The Standard already includes an example that illustrates that IMF quota subscriptions are financial instruments, and constituents have not highlighted any lack of clarity on this conclusion. The Board previously determined that, in this instance, an IE would more clearly illustrate the principle with case facts rather than as an IG in a Q&A format. In comparison, monetary gold required further guidance (IG, B.1.1.1) to address practical implementation considerations to conclude that it is not a financial instrument. Since further clarification was not required for IMF quota subscriptions, no further guidance is required.</p>
		Documentation	<p><i>Other:</i></p> <p>Document Board rationale for not proceeding with measurement guidance in BCs, as it was previously a specific discussion are in the CP.</p>	<p>Write Basis for Conclusions.</p> <p>See recommendation in Comment Letter #10, where staff drafted a BC to concurrently address both documentation comments.</p>

Appendix B – Analysis of Respondents by Region, Function, and Language

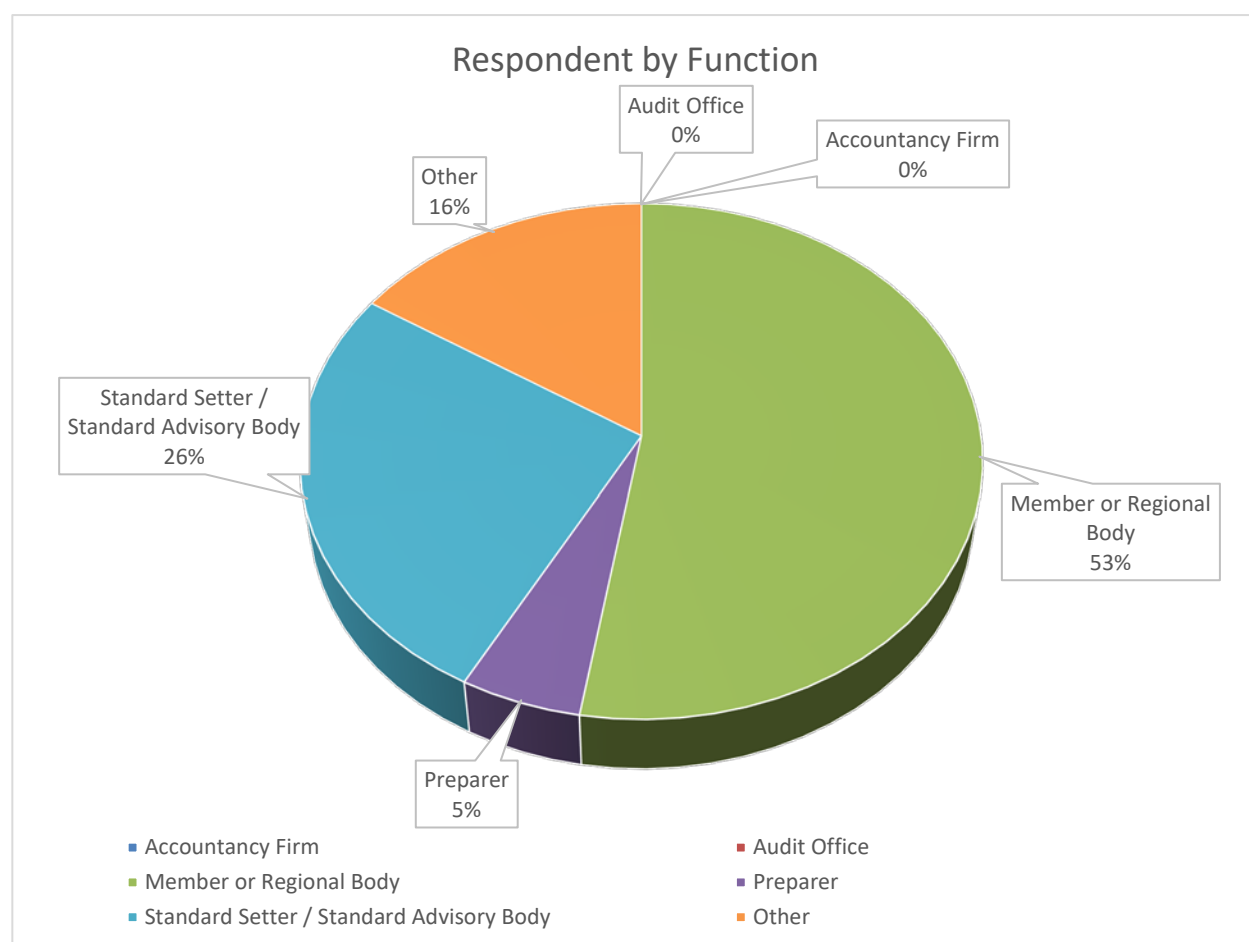
Respondents by Region

Region	Comment letter(s)	Total Respondents
Africa and the Middle East	3, 7, 12, 14, 15, 16	6
Asia	1, 10, 17	3
Australasia and Oceania	4, 5	2
Europe	2, 8, 9, 18, 19	5
Latin America and the Caribbean	13	1
North America	11	1
International	6	1
Total		19



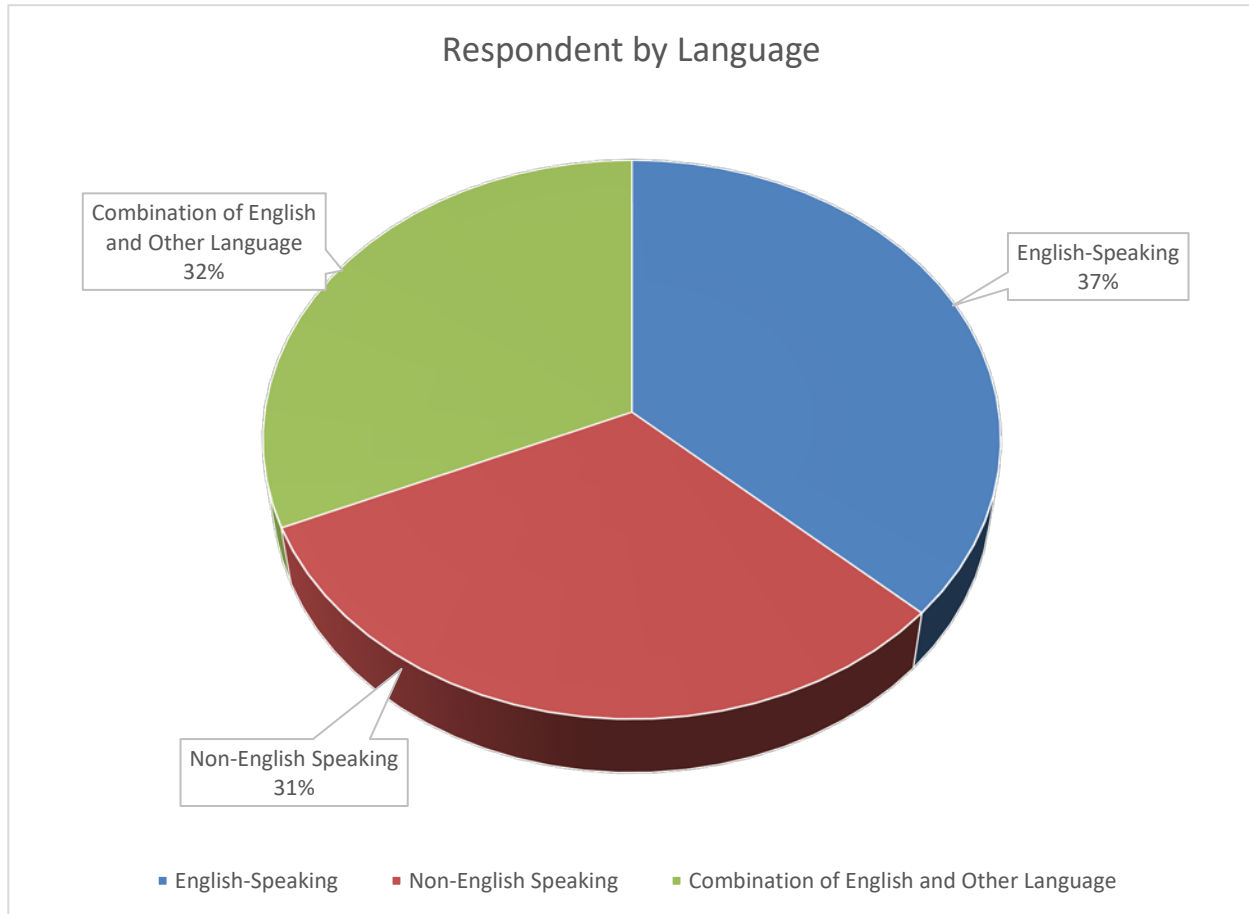
Respondents by Function

Function	Comment letter(s)	Total Respondents
Accountancy Firm		-
Audit Office		-
Member or Regional Body	2, 4, 8, 10, 12, 13, 14, 15, 16, 17	10
Preparer	5	1
Standard Setter / Standard Advisory Body	3, 7, 9, 11, 19	5
Other	1, 6, 18	3
Total		19



Respondents by Language

Language	Comment letter(s)	Total Respondents
English-Speaking	2, 3, 4, 5, 6, 7, 8	7
Non-English Speaking	1, 9, 10, 13, 17, 19	6
Combination of English and Other Language	11, 12, 14, 15, 16, 18	6
Total		19



List of Respondents

Comment letter #	Respondent	Country	Function
1	Shazia Mazedum Islam	Bangladesh	Other
2	Chartered Institute of Public Finance and Accountancy (CIPFA)	United Kingdom	Member or Regional Body
3	Accounting Standards Board (ASB South Africa)	South Africa	Standard Setter / Standard Advisory Body
4	CPA Australia	Australia	Member or Regional Body
5	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
6	International Consortium on Governmental Financial Management (ICGFM)	Regional / International	Other
7	Public Sector Accounting Standards Board (PSASB)	Kenya	Standard Setter / Standard Advisory Body
8	Institute of Chartered Accountants in England and Wales (ICAEW)	United Kingdom	Member or Regional Body
9	Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor (SRS)	Switzerland	Standard Setter / Standard Advisory Body
10	Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
11	Public Sector Accounting Board (PSAB Canada)	Canada	Standard Setter / Standard Advisory Body
12	The National Board of Accountants and Auditors (NBAA)	Tanzania, United Republic of	Member or Regional Body
13	Conselho Federal de Contabilidade (CFC)	Brazil	Member or Regional Body
14	Institute of Certified Public Accountants of Kenya (ICPAK)	Kenya	Member or Regional Body
15	Pan African Federation of Accountants (PAFA)	Regional / International	Member or Regional Body
16	Institute of Chartered Accountants of Nigeria (ICAN)	Nigeria	Member or Regional Body
17	Malaysian Institute of Accounting (MIA)	Malaysia	Member or Regional Body
18	Task Force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII	Regional / International	Other
19	Conseil de Normalisation des Comptes Publics (CNoCP)	France	Standard Setter / Standard Advisory Body

Supporting Documents 1 – Amendments to IPSAS 41: Project Summary

Purpose

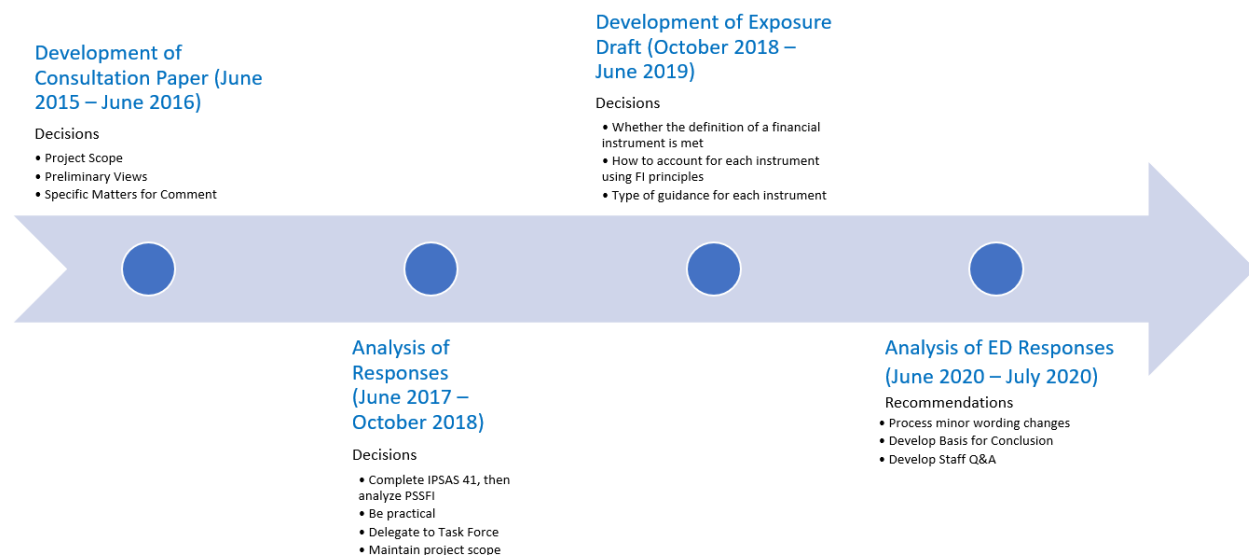
1. To provide the IPSASB with a project summary when considering Staff's recommendations to address responses received on Exposure Draft (ED) 69, *Amendments to IPSAS 41, Financial Instruments*.

Background

2. At its March 2018 meeting, the Board directed the Financial Instruments Task Force to:
 - (a) Review the responses to the Consultation Paper (CP), *Public Sector Specific Financial Instruments*; and
 - (b) Develop an Exposure Draft for consideration by the Board.
3. The Task Force completed both tasks, and the IPSASB subsequently released ED 69 in August 2019 and received 19 responses to guide in developing amendments to IPSAS 41.

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 *Amendments to IPSAS 41* pronouncement is 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.²

Analysis of Responses (June 2017 – October 2018)

7. In June 2017 the IPSASB considered:
 - (a) A summary of responses³; and
 - (b) Input from members of the CAG⁴ 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.

² 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.

³ 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>.

⁴ 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.

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.

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 ED should provide guidance on whether PSSFI meet the definition of a financial instrument (this resulted in a 9-page document, [Exposure Draft 69, Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments](#)). 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.

Analysis of Responses (June 2020 – July 2020)

12. Staff assessed all comment letters received and noted that responses were very supportive of proposed amendments in ED 69. During the analysis, Staff considered the Board's decision, CAG members' advice, and overall intention to keep a pragmatic approach to improving financial instrument reporting (see paragraph 7 and 9).
13. Based on the analysis, staff presented to and received approval from the Task Force for the following recommendations prior to the July 2020 Mid-Period IPSASB Session:
 - (a) **Writing a Basis for Conclusion.** Explain Board's decisions leading from the Consultation Paper (CP) to the Exposure Draft (ED) 69;
 - (b) **Developing a Staff Q&A document.** Provide an overview of the instruments, plain language accounting, examples, and journal entries; and
 - (c) **Processing minor wording changes.** Clarify existing guidance.

See [Agenda Item 1.2.2](#) for detailed analysis.

Decision required

14. No decision required. This agenda item is for information purposes only.

Supporting Documents 2 – ED 69, Amendments to IPSAS 41, *Financial Instruments*

1. Staff has included a marked-up version of the *Amendments to IPSAS 41* pronouncement. This version reflects recommended revisions based on the Task Force's detailed analysis of comment letters received in response to the August 2019 [draft] ED ([see Agenda Item 1.2.2](#)).
2. A final draft will be brought back in September 2020 for approval. The September version will reflect:
 - (a) Any instructions provided by the IPSASB at the July 2020 virtual meeting;
 - (b) Development of a Basis for Conclusions paragraph(s) summarizing the IPSASB July 2020 decision(s); and
 - (c) Program and Technical Director assertion due process has been followed.

**[DRAFT] Final Pronouncement
July 2020**

IPSAS®

*[PROPOSED] International Public Sector
Accounting Standard®*

Amendments to IPSAS 41, *Financial Instruments*

IPSASB

International Public
Sector Accounting
Standards Board®

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Amendments to IPSAS 41 *Financial Instruments*

Basis for Conclusions

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

Introduction

...

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—were 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 IPSASB agreed to address these instruments in a separate project.

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

BC3D. Respondents to Consultation Paper (CP), *Public Sector Specific Financial Instruments* (issued in July 2016) indicated:

- (a) Several PSSFI met the definition of a financial instrument in IPSAS 41 and therefore should be addressed in existing guidance; and

(b) Specific responses to Preliminary Views (PVs) and Specific Matters for Comments (SMCs) in the CP were consistent with existing IPSAS 41 accounting.

In considering responses to its Consultation Paper, Public Sector Specific Financial Instruments (issued in July 2016), the IPSASB agreed, where possible, that Public Sector Specific Financial Instruments should be addressed in the current financial instruments standards. The IPSASB concluded the analysis reflected in the CP was useful, and allowed the Board to determine the approach. However, it was not necessary to carry forward the analysis to the amendments to IPSAS 41 as principles consistent with responses to the CP already existed in IPSAS 41. The IPSASB noted while definitions were not necessary, additional non-authoritative guidance would help users identify these specific financial instruments. In consultation with constituents, the IPSASB concluded the output of the project should focus on the application of IPSAS 41 to PSSFI within the scope of the CP and this scope should not be expanded. PVs on recognition and measurement of PSSFI was not replicated as sufficient guidance on recognition and measurement exist in IPSAS 41.

BC3E. The IPSASB developed additional implementation guidance for monetary gold, currency in circulation and Special Drawing Rights. The IPSASB noted the features of IMF quota subscriptions are consistent with those in Illustrative Example 32 and decided that additional guidance was not required. The IPSASB concluded that the additional illustrative examples and augmented implementation guidance provide appropriate guidance for accounting for these instruments.

...

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 ~~them~~ ~~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 to monetary gold 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, as noted in paragraph BC18A, 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 gold using principles consistent with those applied to financial assets, the IPSASB expects all classification and measurement requirements set out in IPSAS 41 to be applied.

...

Illustrative Examples

These examples accompany, but are not part of, IPSAS 41.

...

Example 32—Capital Subscriptions Held with Redemption Features

IE211. In order to participate in and support the activities of International Development Bank A, or similar international organization⁵, Federal Government B invests and acquires a fixed number of subscription rights in International Development Bank A, based on Government B's proportional share of global Gross Domestic Product. Each subscription right costs CU1,000, which provides Government B with the right to put the subscription rights back to Bank A in exchange for the initial amount invested (i.e., CU1,000 per subscription right). International Development Bank A has no obligation to deliver dividends on the subscription rights.

...

Implementation Guidance

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

...

⁵ An example of a similar international organization that issues such instruments includes the International Monetary Fund (IMF quota subscriptions).

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.1.1 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 the principles set out in IPSAS 41 is generally 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 for an entity to consider other IPSAS depending on the facts and circumstances related to its holding of monetary gold.

B.1.2 Public Sector Specific Financial Instruments

B.1.2.1 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 a 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:

- 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 requirements enforceable by law, such as a banking act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a “contract” exists for the purposes of this Standard. 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. *Where no financial liability exists, an entity should consider whether an obligation is created in accordance with paragraphs 22-43 of IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.* 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.1.2.2 Definition of a Financial Instrument: Special Drawing Rights (SDR) Holdings

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

Yes. 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. Accordingly, SDR holdings are regarded as a financial asset.

B.1.2.3 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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