Session Outline

- Project Management and Project Development
- Analysis of SMCs (Agenda Items 7.2.1-7.2.3)
- Re-activation of Financial Instruments Task Force (Agenda Item 7.2.4)
- Analysis of Other Issues (Agenda Item 7.2.5-7.2.10)
Financial Instruments (Updates to IPSAS 28-30)

Summary of Project Progression (Agenda Item 7.1.3)

September 2016:
• Agreed classification & measurement

December 2016:
• Review & agree-hedging, transition, & BCs

March 2017:
• Approval of authoritative guidance & amendments to other IPSASs

April 2017 TBG Meeting:
• Reviewed the non-authoritative material at the in-person TBG Meeting

June 2017:
• Final approval of draft ED
### Overview of Current IPSASs on Financial Instruments

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

**Updates**

- **IFRS 9**
Overview of IFRS 9: Financial Instruments

<table>
<thead>
<tr>
<th>Phase I Classification &amp; Measurement</th>
<th>Phase II Impairment</th>
<th>Phase III Hedge Accounting</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Financial assets – significant changes</td>
<td>• Expected loss model – dual measurement approach</td>
<td>• Principles-based approach to align with risk management</td>
</tr>
<tr>
<td>• Financial liabilities – own credit risk</td>
<td></td>
<td>• Flexibility in hedging instruments &amp; hedged items</td>
</tr>
</tbody>
</table>
SMC 1: Consistent with the relief provided in IFRS 9, the IPSASB has agreed in [draft] IPSAS [X] (ED 62) to allow an option for entities to continue to apply the IPSAS 29 hedging requirements. Do you agree with the IPSASB’s proposal?

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>82%</td>
</tr>
<tr>
<td>Partially Agree</td>
<td>9%</td>
</tr>
<tr>
<td>No View</td>
<td>9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Respondents</td>
<td>18</td>
</tr>
<tr>
<td>Partially Agree</td>
<td>2</td>
</tr>
<tr>
<td>No View</td>
<td>2</td>
</tr>
</tbody>
</table>
SMC 2: Do you agree with the proposed 3-year implementation period before [draft] IPSAS [X] (ED 62) becomes mandatory? Please explain.

- Agree: 73%
- Disagree: 18%
- No View: 9%

# of Respondents

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Partially Agree</th>
<th>Disagree</th>
<th>No view</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Respondents</td>
<td>16</td>
<td>-</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>
SMC 3: Do you agree with the proposed transition requirements in paragraphs 153-180, consistent with those provided in IFRS 9? If not, what specific changes do you recommend and why?

<table>
<thead>
<tr>
<th></th>
<th>Agree</th>
<th>Partially Agree</th>
<th>Disagree</th>
<th>No view</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Respondents</td>
<td>19</td>
<td>-</td>
<td>-</td>
<td>3</td>
</tr>
</tbody>
</table>

86% Agree, 14% No View
## Financial Instruments Task Force (Agenda Item 7.2.4)

### SMCs

<table>
<thead>
<tr>
<th>SMC</th>
<th>Support Level</th>
<th>Core Principles Proposed in ED 62</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMC 1</td>
<td>Strongly Supported (82% Agree)</td>
<td>are strongly supported</td>
</tr>
<tr>
<td>SMC 2</td>
<td>Strongly Supported (73% Agree)</td>
<td></td>
</tr>
<tr>
<td>SMC 3</td>
<td>Strongly Supported (86% Agree)</td>
<td></td>
</tr>
</tbody>
</table>

### Other Issues Identified

- Challenges identified in application and interpretation of the principles
- Re-activate Task Force
Other Issues Identified

Challenges identified in application and interpretation of the principles

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

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

Category 3 – Minor Issues (7.3.5)
Financial Instruments (Updates to IPSAS 28-30)
Other Issues – Concessionary and Originated Credit
Impaired Loans (Agenda Item 7.2.5) (1/3)

Loan Characteristics

Concessionary Loan

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

Originated Credit Impaired Loan

- Recognize loan at fair value
- Recognize concession separately
- Recognize interest based on gross amount of the loan
Financial Instruments (Updates to IPSAS 28-30)

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

Loan Characteristics

Concessionary Loan

Originated Credit Impaired Loan

For Task Force Consideration:
- Separate the credit and concessionary elements;
- Develop a practical expedient to include the credit impairment in the day one concession;
- Develop an example applying the principles; or
- Allow the application of the principles to develop in practice.
Does the IPSASB agree with staff’s proposed options for Task Force consideration?
Financial Instruments (Updates to IPSAS 28-30)

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

For Task Force Consideration:
- Develop an example illustrating the application of the existing principles;
- Develop additional guidance detailing measurement of a loan commitment over a concessionary loan; or
- Allow the application of the principles to develop in practice.
Does the IPSASB agree with staff proposed options for consideration by the Task Force?
### Financial Instruments (Updates to IPSAS 28-30)

### Other Issues – Ignoring the Effects of Discounting

### Short Term Receivables (Agenda Item 7.2.7) (1/2)

#### IFRS 15.63 Practical Expedient
No adjustment to contractual amount for financing if payment is expected within 12 months

#### ED 62 General Measurement Requirements
Measure a financial asset at its fair value

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**For Task Force Consideration:**
- There is no inconsistency;
- Wait for more clarity from the Revenue project;
- Develop a practical expedient in ED 62 to mirror that of IFRS 15; or
- Develop an example illustrating the application of existing principles.
Does the IPSASB agree with the options developed by staff for consideration by the Task Force?
Other Issues – Measuring Fair Value of Non-Cash Generating Equity Instruments (Agenda Item 7.2.8) (1/2)

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

For Task Force Consideration:
- What further non-authoritative guidance could be developed to clarify acceptable measurement methodologies; and
- Whether further non-authoritative guidance should be developed.
This IPSASB is asked the following:
- Does it agree with the Task Force consideration this issue?
- Does it agree with staff’s proposal of considerations the Task Force should review?
Financial Instruments (Updates to IPSAS 28-30)
Other Issues – Clarifying an ‘in substance’ Equity Instrument (Item 7.2.9) (1/2)

How to determine whether an equity instrument includes a concessionary element

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

Proposal
Contract must explicitly state the form of the transaction

For Task Force Consideration:
- Whether the requiring the substance to be considered continues to be appropriate; or
- If the IPSAS 23 requirements are appropriate; and
- Develop a Basis for Conclusions that highlights the decision.
This IPSASB is asked the following:
- Does the IPSASB agree with the Task Force consideration of this issue?
- Does the IPSASB agree with staff’s proposal of what the Task Force should review related to this issue?
Other Issues – Interaction of Day One Fair Value Guidance with Other Valuation Guidance (Item 7.2.10) (1/2)

• The Board added AG117 which addresses how to account for the transaction when the transaction price does not equal the fair value

• A respondent noted the guidance is similar in AG147 and AG148 and should be further considered by the IPSASB

For Task Force Consideration:
- Whether to remove paragraph AG117;
- Whether more clarity is required in how to apply AG117;
- Whether to remove paragraphs AG147 and AG148; and
- Keep all guidance and clarify which takes precedence.
This IPSASB is asked the following:
- Does the IPSASB agree with the Task Force consideration of this issue?
- Does the IPSASB agree with staff’s proposal of what the Task Force should review related to this issue?