Agenda Item 5: Financial Instruments (Updates to IPSAS 28-30)

Dave Warren, Manager, Standards Development and Technical Projects
Ross Smith, Deputy Director
IPSASB Meeting
Toronto, Canada
June 19 – 22, 2018
Financial Instruments (Updates to IPSAS 28-30)

Session Outline

- Project Management and Project Development
- Review of Task Force Recommendations (Agenda Items 5.2.1-5.2.7)
- Basis for Conclusions (Agenda Item 5.2.8)
- Approval of IPSAS 41 (Agenda Item 5.2.9)
Summary of Project Progression (Agenda Item 5.1.3)

September 2016 – March 2017:
• Approval of authoritative guidance & amendments to other IPSASs

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

June 2017:
• Final approval of draft ED

March 2018
• Initial Review of Response and delegation of Specific Issues to the Task Force

June 2018
• Approval of IPSAS 41
Task Force Process (Agenda Item 5.3.1)

Teleconference One
(March 26, 2018)
- Reviewed Staff Recommendations

Teleconference Two
(April 19, 2018)
- Reviewed Issues delegated by the IPSASB

Teleconference Three
(May 23, 2018)
- Reviewed Basis for Conclusion
- Agreed on Task Force Recommendations
Financial Instruments (Updates to IPSAS 28-30)
Concessionary Originated Credit Impaired Loans
(Agenda Item 5.2.1) (1/2)

Issue 1 - classifying a loan as concessionary or originated credit impaired

Task Force Recommendation

- Distinction between concessionary and originated credit impaired loan is based on intent of loan;
- Clarification made in AG121, AG122 and G.5.

Issue 2 - accounting for concessionary loans which are credit impaired

Task Force Recommendation

- Require the entire difference between the transaction price and fair value to be allocated to the concessionary element;
- Clarification made in AG127 and G.6.
Matter for Consideration

Does the IPSASB agree with the Task Force Recommendation?
Issue – expense recognition when the commitment liability does not equal the value of the concession

Task Force Recommendation

- Existing guidance is sufficient to account for transactions where a commitment to issue a concessionary loan is granted;
- An illustrative example was developed to illustrate the application of the principles with case facts (see IE 162).
Matter for Consideration

*Does the IPSASB agree with the Task Force Recommendation?*
Issue – the IFRS 15 practical expedient does not exist in IPSAS

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

VS

IPSAS 41 General Measurement Requirements
Measure a financial asset at its fair value

Task Force Recommendation

• Add prominence to existing guidance that requires short-term receivables to be measured at the original invoice amount (paragraphs 57 and 60).
Matter for Consideration

Does the IPSASB agree with the Task Force Recommendation?
**Issue 1** – difficult for public sector entities to obtain valuations for unquoted equity investments

**Issue 2** – using a cash flow valuation technique to measure unquoted equity instruments may result in impairments

**Task Force Recommendation**
- This is not a public sector difference;
- Log the issue for consideration as part of the public sector measurement project.

**Task Force Recommendation**
- IPSAS 41 allows for various measurement techniques;
- Incorporate BC39 to BC42 which provides an overview of IPSAS 41’s fair value guidance.
Matter for Consideration

*Does the IPSASB agree with the Task Force Recommendation?*
Financial Instruments (Updates to IPSAS 28-30)
Clarifying an In Substance Equity Instrument (Agenda Item 5.2.5) (1/2)

**Issue** – *evaluating the substance, rather than the contractual terms, of whether an instrument is equity is challenging in the public sector*

**Task Force Recommendation**

- Continue to require professional judgement to be applied in determining whether an instrument is an equity instrument;
- Incorporate additional Implementation Guidance, G.4, that includes the indicators from paragraph 38 of IPSAS 23 to help constituents apply professional judgement.
Matter for Consideration

Does the IPSASB agree with the Task Force Recommendation?
Interaction of Day One Fair Value Guidance with Other Valuation Guidance (Agenda Item 5.2.6) (1/2)

**Issue** – *guidance in paragraph AG117 is duplicated in paragraphs AG147 and AG148 of ED 62*

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**Task Force Recommendation**

- Amend AG117 and AG151 (previously AG147 and AG148) to eliminate duplication of fair value guidance;
- Incorporate BC46 to BC48 to explain the amendment.
Matter for Consideration

*Does the IPSASB agree with the Task Force Recommendation?*
Other Issues:

Issue 1 – *the term grant requires additional explanation*

**Task Force Recommendation**

- apply more generic wording in the Application Guidance by using the term “non-exchange transaction” (AG124)
Other Issues Delegated to the Task Force (Agenda Item 5.2.7) (2/5)

Other Issues:

**Issue 2** – clarify the sequencing of SPPI evaluation for concessionary loans

**Task Force Recommendation**

- clarify assessment is performed after initial measurement, not initial recognition (AG126)
Other Issues:

**Issue 3 and 5** – *the IFRS 9 practical expedient for short term receivables is not available in IPSAS 41*

**Task Force Recommendation**

- amend initial measurement guidance to indicate short term receivables and payables are measured at the invoice amount (paragraph 60)
Other Issues: 

**Issue 4** – *applying the originated credit impaired requirements to short term receivables is complex in the public sector*

**Task Force Recommendation**

- introduce a practical expedient exempting short term receivables from originated credit impaired guidance (paragraph 89)
Matter for Consideration

*Does the IPSASB agree with the Task Force Recommendation?*
Financial Instruments (Updates to IPSAS 28-30)

Basis for Conclusion (Agenda Item 5.2.8) (1/2)

**BCs Identified**
- Task Force Members agreed which BCs were necessary

**BCs Drafted**
- Staff drafted BCs for Task Force Review

**Review of BCs**
- IPSASB Technical Director performed first review
- Task Force delegated detailed review to one member (Jeanine Poggiolini)
- Task Force reviewed and agreed to recommend BCs to the IPSASB
Matter for Consideration
Does the IPSASB agree with the Basis for Conclusion recommended by the Task Force
Approval of IPSAS 41 (Agenda Item 5.2.9)

Due process requires:

The IPSASB Technical Director advise that due process has been followed effectively;

The IPSASB to confirm it is satisfied there are no additional issues to be discussed;

The IPSASB to confirm it is satisfied that due process has been followed effectively;

The IPSASB to approve IPSAS 41, Financial Instruments;

The IPSASB to confirm there has been no substantial change to ED 62; and

Set an effective date of January 1, 2022 for IPSAS 41, Financial Instruments.