Agenda Item 3: Public Sector Specific Financial Instruments

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Objective of Agenda Item

Consider and provide directions on key issues

Materials Presented

• Agenda Item 3.1 Issues Paper
• Agenda Item 3.2 Draft CP: Currency in Circulation & Monetary Gold Chapters
Reserve Asset Definition (Paras 5 – 9) 1/2

- Feedback in September – reserve asset definition not sufficiently aligned with GFS
- TBG and staff considered revisions – concerns regards to using GFS terminology
- IMF provided wording for consideration
  - *Staff view:*
    - Proposed IMF wording should be considered to ensure GFS alignment
    - Different approaches can be considered - such as footnotes and descriptions to explain IPSAS accounting - GFS terminology bridge
Matter for Consideration:

• *Indicate which of the two proposed definitions and descriptions is preferred, those in paragraphs 3.26 and 3.28 or the alternatives in boxes following those paragraphs.*
Specific Matter for Comment – Chapter 3-1

(a) Should the IPSASB prescribe measurement requirements in accordance with:

(i) Option 1: Measurement at market value; or

(ii) Option 2: Measurement at historical cost?

(b) Should the IPSASB allow preparers to designate an option based on intentions in holding the assets?

Matter for Consideration:

• Agree with the revised SMC, or suggest amendments
• Types of currency arrangements:
  – Dollarization – para 2.16 of the CP
  – Foreign currency mixed with domestic – para 2.17 of the CP
  – Currency union – para 2.18 of the CP

**Matter for Consideration:**

• Confirm if types of currency arrangements are appropriately identified and explained in the CP, or suggest amendments.
Nature of Currency (Paras 14 – 15)

• Paragraphs 2.19-2.23 of CP consider purpose and function of notes and coins
• Notes and coins derive value because they are legal tender and accepted as a medium of exchange – serve same purpose and function

Matter for Consideration:
• Indicate if it agrees with the analysis and conclusion that coins and notes serve same purpose and function
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Currency – Option 1: Liability (Paras 16 – 26) (1/4)

- Based on direction at the Sept 2015 meeting – revised approach - conceptual options developed
- Appendix C of the CP - process for considering the conceptual options

**Liability**
- Past event – issuance of currency
- Existence of present obligation for on outflow of resources – key issue
- Legal or non-legal binding obligation
Legal obligation

• Laws set out requirements and responsibilities for monetary authorities
• Paras 2.36–2.41 set out factors that give rise to legally binding obligation
• Absence of laws and regulations – consider non-legally binding obligation
Non-legally binding obligation

- Factors which may give rise to a non-legally binding obligation considered in paras 2.43-2.52
- Indication entity willing to accept certain responsibilities
- Creation of a valid expectation
- Little or no realistic alternative to avoid an outflow
**Matters for Consideration:**

- Confirm support for the analysis related to the factors that give rise to recognition of a liability

- Confirm support for the analysis related to the factors which rise to a legal or non-legally binding obligation
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Currency – Option 1: Measurement (Paras 27 – 30)

- Historical cost / Market value = cumulative face value of currency issued
- Cost of fulfillment = expected cost of replacement currency

Matters for Consideration:
- Confirm support for the analysis related to the various measurement bases
- Indicate if it has a view as to which measurement basis is appropriate
Currency – Option 2: Revenue (Paras 31 - 35) (1/2)

- Absence of an obligation – consider revenue
- Paras 2.61 – 2.66 of the CP discuss the revenue option
- Issuance of currency results in increases in net financial position
- Currency holders get a fixed amount of currency (face value) – not an ownership interest
• Revenue measured at cumulative face value of currency issued, which is equal to consideration received when issued

Matters for Consideration:
- Confirm support for the analysis related to Option 2: revenue
- Confirm support for measurement at cumulative face value of currency issued
• Staff and TBG also considered a 3rd Option: other obligation and concluded it was not viable

Matter for Consideration:
- **Confirm agreement with decision not to include another option for other obligations**
Chapter 4: IMF Transactions (Paras A.1 – A.14) (1/5)

- Para A.1 – Proposed structure for chapter 4
- Paras A.2-A.11 – Background Information on IMF reserve position and Special Drawing Rights
- Paras A.12-A.14 – Issues related to development SDRs, SDR obligations, IMF quota subscription
- Need for examples

Matter for Consideration:
- Discuss and provide directions on issues in Appendix A of the CP
Chapter 4: IMF Transactions: Background (Paras A.2 – A.14) (2/5)

- IMF Quota
  - Subscription
  - Voting power
  - Access to financing

- SDRs
  - Low cost method of adding to members international reserves
  - Not available to purchase goods
  - Interest earned or charged – depending on amount of SDRs
Do SDRs meet Conceptual Framework (CF) asset definition

Meet the definition of other CF elements

Appear similar to reserve assets – possibly FI’s as defined in IPSAS

In practice, accounted for as forex, revalued based on basket of SDRs currencies (market value)
Do SDR obligations meet Conceptual Framework (CF) liability definition

Meet the definition of other CF elements

Appear similar to a loan – possibly FI’s as defined in IPSAS

In practice, accounted for as loan denominated in forex – Historical cost revalued based on changes in SDRs
Does IMF quota subscription meet the Conceptual Framework (CF) definition of an asset or ownership contributions

Other CF elements they qualify as

Appear similar to a financial investment, possibly an equity instrument – appear to be financial instruments under current IPSASs

In practice, appear to be accounted for as financial assets