Agenda Item 3: Public Sector Specific Financial Instruments

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IPSASB Meeting
September 22-25, 2015
Toronto, Canada
Objective of Agenda Item

Consider and provide directions on key issues

Materials Presented

• Agenda Item 3.1 Issues Paper
• Agenda Item 3.2 Draft Ch. 3: Monetary Gold
• Agenda Item 3.3 Draft Ch. 2: Currency in Circulation
Monetary Gold (Paras 4 – 5)

- Monetary gold definitions and descriptions - June 2015
- Para 3.21 added: FI’s resulting in gold, may be in scope.

Matter for Consideration:
- Confirm amendments to clarify whether FI’s resulting in delivery of gold should be in scope
Monetary Gold – Preliminary View (Paras 6 – 7)

- Inclusion of PV
- PV for definitions: *monetary gold* definition, *tangible gold*, *monetary authority* and *reserve assets*

**Matter for Consideration:**
- *Agree with including of a PV on the definitions in the chapter.*
Specific Matter for Comment – Chapter 3-1
Please provide the reasons for your support of:
(i) Option 1: Measurement at market value;
(ii) Option 2: Measurement at historical cost.
Specific Matter for Comment – Chapter 3-2

Please provide the reasons for your support of:

(i) Alternative 1: IPSASB to prescribe accounting requirements based on one of the options; or

(ii) Alternative 2: Allow preparers to designate an option based on their intentions.
Matters for Consideration:

- Agree with including SMC-Chapter 3-1;
- Agree with proposed wording of SMC-Chapter 3-1;
- Agree with including SMC-Chapter 3-2;
- Agree with proposed wording of SMC-Chapter 3-2;
• Modifications based on IPSASB June 2015 feedback
  – Domestic currency in circulation;
    • Addition of “authorized” - 3rd parties which produce/distribute currency
    • Consider replacing “economy” with “jurisdiction”
      – Staff view – economy
      – GFS guidance and IPSAS 4 and IPSAS 10
### Defined Term

<table>
<thead>
<tr>
<th>Defined Term</th>
<th>Definition</th>
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<tr>
<td>Domestic Currency in Circulation</td>
<td>Physical notes and coins with fixed and determinable values that are legal tender issued by the monetary authority, or by a third party that is authorized to do so, that is, either that of an individual economy or, in a currency union to which the economy belongs.</td>
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### Matters for Consideration:

- Confirm if the revised definition of domestic currency in circulation is appropriate or provide amendments;
- Agree with including a PV for the definition.
Public Sector Specific Financial Instruments

Currency: Financial Liability vs Liability to Maintain (Paras 11 – 13)

- View that financial liability and obligation to maintain liability for notes in circulation approaches interrelated
- Obligation to maintain does not give rise to recognition of liability until notes issued

Matters for Consideration:
- Agree with staff and TBG view that the approaches are interrelated and therefore one approach;
- Agree with the discussion in paragraphs 1.24-1.28 in regards to the obligation to maintain notes, or suggest amendments.
Public Sector Specific Financial Instruments

Currency: Financial Liability (Paras 14 – 18) (1/2)

- **Nature - financial liability**
  - Substance of transaction is contractual
    - Distribution of notes an exchange between willing parties
    - Rights – Holders can exchange notes for consideration equal to face value
    - Obligations – Monetary authority must issue consideration equal to face value when presented with notes
    - Remedy for none performance enforceable by law

- **Accounting treatment consistent with IPSAS 28-30**
  - Financial liability fair value through surplus or deficit
  - Currency liabilities at amortized cost inappropriate (no maturity, interest payments)
• IPSAS 29.49 requires subsequent measurement at amortized cost
• IPSAS 29.49 allows under limited circumstances measurement at fair value through surplus or deficit

Matters for Consideration:
- Agree that cash is a financial instrument and financial liability, or provide alternative directions.
- Agree with proposal for consistent treatment to that of IPSAS 28-30 for a financial liability classified as fair value through surplus or deficit, or provide alternative directions.
Variation in accounting for coins

Different nature of coins vs. notes:
- No obligation – no legal requirements or past practice
- Possibility of outflow – not probable because:
  - Value of coins immaterial
  - Coins more durable, residual value of damaged coins limits outflow or resources

Staff/TBG view when liability recognized for coins, should be consistent with notes

Coins issued – no obligation to maintain - revenue
Matters for Consideration:

- Agree that when a liability for coins is recognized, accounting treatment should be consistent with liability for notes, or provide alternative directions.

- Agree with staff view that when no obligation for coins exists, transaction to issue coins results in revenue, or provide alternative directions.
Currency – Examples (Paras 24 – 26)

Jurisdiction 1 – liability for notes, not coins
  – Variation related to currency laws

Jurisdiction 2 – liability for both notes and coins
  – Laws require maintenance of notes and coins
  • Staff and TBG view to include generic examples consistent with appendix to draft chapter
    – Focus on nature of transactions
    – Conceptual Framework and IPSAS

Matter for Consideration:
- Agree with view to include current generic examples in the appendix to the CP, or provide alternative directions.
Specific Matter for Comment – Chapter 2-1

Do you agree with the following:

a) The economic nature of transactions to issue currency in circulation are best represented by measuring notes at face value

b) Use of the CF measurement bases of historical cost and market value results in measurement of currency at face value of currency issued
Specific Matter for Comment – Chapter 2-2
Do you support consistent accounting for the liabilities for notes and coins in circulation, when a liability exists and is recognized for both?

Specific Matter for Comment – Chapter 2-3
Do you believe when a liability for coins in circulation is not recognized, the substance of the transactions results in the recognition of revenue?
Matters for Consideration:

• Agree with including a SMC-Chapter 2-1, and if so, agree with wording or suggest amendments;

• Agree with including a SMC-Chapter 2-2, and if so, agree with wording or suggest amendments;

• Agree with including a SMC-Chapter 2-3, and if so, agree with wording or suggest amendments.