



14 July 2009

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Ref.: PSC/HvD/SS/SR

Dear Ms Fox,

Re: FEE Comments on IPSASB Exposure Draft 37 'Financial Instruments: Presentation', Exposure Draft 38 'Financial Instruments: Recognition and Measurement' and Exposure Draft 39 'Financial Instruments: Disclosure'

- (1) FEE (the Federation of European Accountants) is pleased to submit its views on the IPSASB Exposure Draft 37 'Financial Instruments: Presentation', Exposure Draft 38 'Financial Instruments: Recognition and Measurement' and Exposure Draft 39 'Financial Instruments: Disclosure'.
- (2) We strongly support IPSASB's project to develop a suite of IFRS converged IPSASs on relevant issues, closely reflecting IFRS where this is possible, and providing interpretation or additional guidance where this is necessary.

Comments on the content of the Exposure Drafts

- (3) The EDs are based on IAS 32, IAS 39 and IFRS 7 modified using the IPSASB's 'public sectorization' approach. They also include similarly modified IFRIC material in appendices, to bring together a coherent body of guidance on financial instruments. In addition to the 'public sectorization' of terminology and examples, the Exposure Drafts extend the scope of the proposed standards to encompass financial instruments which arise under contractual arrangements with a non-exchange element.

- (4) We agree that it is appropriate to extend the scope in this way. We also agree with the Board's analysis which notes that there are wider classes of arrangement with characteristics similar to financial instruments in the public sector which are not covered. We agree with the decision of the Board to defer consideration of these in order to progress the IFRS convergence agenda in a timely manner.
- (5) In general we agree that the 'public sectorization' is helpful, and the additional material is appropriate and should be reflected in the IPSAS as proposed. Answers to the specific questions in the exposure drafts are attached.

Comments on timing, having particular regard to Financial Instruments

- (6) As noted above, we strongly support the Board's project to produce as complete as possible a set of IPSASs by 31 December 2009, having regard to related IFRS as at 31 December 2008 insofar as they are relevant. This will form a high quality and credible basis from which to develop further standards and guidance, including public sector specific issues on which IFRS is silent.
- (7) Having said this, the position of reporting standards on financial instruments at the present time is very fluid. In the light of the financial crisis the IASB and some other national standard setters have been accelerating projects to improve this complex area of financial reporting. A number of fast-track amendments have already been made to existing standards, and in May 2009 the IASB announced its intention to substantially revise and simplify financial instruments reporting, including developing a new classification and measurement standard which will have effect from 2009 year ends, and the issuance of consultation material on impairment of financial assets and on hedging before the end of 2009.
- (8) In the light of the above, it is natural to consider whether for the specific case of financial instruments, it would be better to delay development of related IPSAS guidance. The body of guidance which has been 'public sectorized' in the Exposure Draft is complex and detailed, and it might be advantageous to wait until the IASB has completed its development and deliberations, and produce a public sectorized version of revised standards when these have been issued.
- (9) We note that the IPSASB considered these issues at its Washington meeting in May 2009, and issued a press release reaffirming the Board's commitment to the production of a comprehensive set of standards and removing reliance on a hierarchy of standards which includes standards which are not designed for application in the public sector. The Board decided to continue its full consultation on exposure drafts relating to Financial Instruments, and will consider any changes ultimately adopted by the IASB in due course.

- (10) On balance, we agree with the IPSASB position, given that development and implementation of a revised IPSAS would require a further round of 'public sectorization', Board approval, and subsequent due process. We were glad to see that the IPSASB press release also highlights the need to consider actions to be taken to reflect revised IFRS guidance. If the Board achieves its IFRS convergence target by the end of 2009, it will then be well placed to begin 'maintenance' of IPSAS which are substantially based on IFRS, having regard to recent amendments which are relevant to public sector financial reporting. We suggest that the Board should attach particular priority to reviewing the financial instruments IPSASs.

We hope these comments are a helpful contribution to the development of the revised standards. For further information on this letter, please contact Ms Saskia Slomp from the FEE Secretariat.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line.

Hans van Damme
President

ED 37 Specific Matters for Comment

1. ED 37 allows entities to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to recognize and measure them in accordance with the international or national accounting standard dealing with insurance contracts. However, all financial guarantee contracts issued at no or nominal consideration are required to be treated as financial instruments. Do you agree with this approach? Please state your reasons for either agreeing or disagreeing with this approach.

We agree with this approach. In our view it would be anomalous to use insurance accounting for contracts which have not been priced or managed in accordance with insurance practice.

2. The transitional provisions to ED37 do not provide any relief for entities initially adopting accrual accounting from preparing and presenting comparative information. Do you support this proposal? If additional transitional provisions are necessary, please indicate what these should be and state your reasons.

We support this approach.

ED 38 Specific Matters for Comment

1. Do you agree with the Application Guidance relating to the issuer of concessionary loans (paragraphs AG83 to AG89), in particular:

(a) The requirement that any difference between the transaction price of the loan and fair value of the loan at initial recognition should be expensed;

(b) The distinction between concessionary loans and the waiver of debt?

If you do not agree with the Application Guidance please give your preferred alternative approach and state your reasons.

We agree with the reporting approach at (a), and the distinction made at (b).

2. Do you agree with the Application Guidance relating to financial guarantees provided for nil or nominal consideration (paragraphs AG91 to AG96), in particular that entities should apply a mathematical valuation technique to obtain a fair value where this produces a reliable measure of fair value? Alternatively, where a fair value cannot be obtained through observation of an active market, do you think that initial recognition should be in accordance with IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets." Please state your reasons.

We agree with the three levels of the hierarchy which the Board proposes. In practice there may be few instances where, in the absence of suitable market information, a reliable mathematical valuation can be used.

3. Do you agree with the transitional provisions in paragraphs 114 to 123? If you do not agree with these transitional provisions please indicate further transitional provisions that are necessary, or those transitional provisions that are unnecessary. Please state your reasons.

We agree with the transitional provisions.

ED 39 Specific Matter for Comment

The IPSASB considered all of the required disclosures in IFRS 7 to assess whether any disclosures should be deleted for public sector specific reasons. Examples of disclosures specifically considered include sensitivity analyses and collateral. The IPSAS concluded that there is no public sector specific reason to depart from the requirements of IFRS 7 by deleting any disclosures. Do you agree?

We agree.