By e-mail July 2009

Technical Director
International Public Sector Accounting Standards Board
IFAC

IPSASs Exposure drafts: Financial presentation (37), Recognition and measurement (38) and Disclosures (39)

ACCA (the z) welcomes the opportunity to comment on the above financial instruments. ACCA is the largest and fastest- growing global professional accountancy body with over 122,000 members and 325,000 students in 170 countries.

We aim to offer the first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

General comment on all three exposure drafts

Whilst ACCA welcomes the opportunity to comment, we understand that the International Accounting Board (IASB) and the Financial Accounting Standards Board (FASB) are accelerating their project on redrafting standards on financial instruments International Accounting Standards (IAS) 32 and 39, which are likely to have some major changes such as reducing the measurement alternatives and addressing the issues of transfers out of fair value. The review is likely to come in the third of fourth quarter of this year.

We understand that IAS 39 is a rapidly changing picture and are aware of the risks associated with not having the appropriate disclosures in place. We are supportive of the proposed changes but continue to be concerned about what appears to be a lack of co-ordination between IASB and IFAC which inevitably will result in increased costs to stakeholders in terms of understanding and applying the standards in the future.

Specific issues

ED 37
Question 1: ED 37 allows entities to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to

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recognize and measure them in accordance with the international or national accounting standards 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?

Given that there is currently no IPSAS on these and IFRS is even vaguer the accounting treatment for financial guarantee contracts should at least be consistent with IAS 32. Financial guarantee contacts issued at no or nominal consideration should be treated as financial instruments - contractual rights should be recognised. You might want to refer to some worked examples on financial guarantee contract set out in the UK Government financial reporting manual. http://www.financial-reporting.gov.uk/other_practical_examples_and_proformas.htm

Question 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.

ACCA agrees that there should be no relief for entities initially adopting accrual accounting from preparing or presenting comparative information. It will achieve better comparability.

ED38

Question 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 distinction set out in paragraph AG 84 about the difference between concessionary loans and the waiver of debt.

We agree that any difference between the transaction price of the loan and fair value (where a reliable valuation used) should be expensed as set out in paragraph AG87.

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Question 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."

ACCA has previously supported the main requirements of IAS39 and has raised general concerns about the reliability of fair values once these move too far way from active markets. In our view it would be extremely difficult to apply a meaningful mathematical valuation to financial guarantees in the public sector which take account of financial risk. We would prefer to see the accounting treatment as set out in option 2. Where an active market doesn't exist we would agree that initial recognition of the financial guarantee contract the principles of IPSAS 19 should apply.

Question 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.

The transitional provisions set out in paragraphs 114-123 appear rather complex. These should be reviewed with a view to simplifying them where possible.

ED39

Question 1: 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?

In relation to the disclosure of collateral there would appear no reason to depart from the requirements of IFRS 7. Financial statements should disclose financial or non-financial assets during the period by taking possession of collateral it holds as security or guarantees. Both the nature and amount of the assets together with policies for disposing of such assets or for using them in its operations should be disclosed as set out in the standard.

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It should be considered best practice for public bodies to undertake sensitivity analysis as part of financial management planning and treasury management. ACCA believes it is critical for managing risk. The recent Icelandic bank fiasco in the UK where local authorities were over exposed in one bank and failed to update market intelligence goes to demonstrate why sensitivity analysis is important and a disclosure note would help to promote public confidence in the stewardship of public funds.

In local government alone in the UK there are around 500 local authorities that manage £60 billion of debt and £31 billion of cash balances and investments. ACCA considers that it would be good practice to include both quantitative and qualitative statements as set out in paragraph 39 (ED 39) which sets out at the time of reporting a public body's susceptibility to market, interest or currency risk. This would help to strengthen the treasury risk management process.

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