

**Meeting:** IPSASB Consultative Advisory Group

**Meeting Location:** Luxembourg, Luxembourg

**Meeting Date:** June 26, 2017

## Agenda Item 6

For:

- ☐ Approval  
☒ Discussion  
☒ Information

### Public Sector Specific Financial Instruments

|                               |  |                    |
|-------------------------------|--|--------------------|
| <b>Project summary</b>        | Assessment of responses to Consultation Paper on recognition and measurement of public sector specific financial instruments: monetary gold, currency in circulation, IMF quota subscription and IMF special drawing rights. |                    |
| <b>Meeting objectives</b>     | <b>Topic</b>   | <b>Agenda Item</b> |
| <b>Discussion Items</b>       | <a href="#">Public Sector Specific Financial Instruments – Responses to IPSASB's Consultation Paper</a>  | 6.1                |
| <b>Other supporting items</b> | <a href="#">Appendix A: IPSASB Due Process Checklist</a>   | 6.2                |
|                               | <a href="#">Appendix B: Links to Other Documents</a>   | 6.3                |

# Agenda Item 6.1

## Background

1. IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement* and IPSAS 30, *Financial Instruments: Disclosures* are based on the IASB's financial instruments standards as at December 31, 2008.
2. The project to develop IPSAS 28, IPSAS 29, and IPSAS 30 identified several items which have public sector specific characteristics. Some items identified may meet the definition of a financial instrument, while others do not.
3. IPSAS 28, IPSAS 29 and IPSAS 30 were issued in January 2010. Since then, the IASB has issued IFRS 9, *Financial Instruments*. The IPSASB has an ongoing project to update IPSAS 28, IPSAS 29 and IPSAS 30 to maintain convergence with IFRS, and Exposure Draft (ED) 62, *Financial Instruments* is expected to be issued in summer 2017. The items identified as "public sector specific financial instruments" are identified in the table below, along with information on where each has been addressed or which project is currently considering the issues. The first four items in the table (shaded) are referred to collectively as the transactions in scope of the Consultation Paper (CP), [Public Sector Specific Financial Instruments](#), which the IPSASB published in July 2016.

| Public Sector Financial Instruments Topics           | How and Where Each Topic Considered   |
|--|---|
| Monetary gold  | Public sector specific financial instruments project – chapter included in July 2016 Consultation Paper (CP). |
| Special Drawing Rights (SDRs)                        | Public sector specific financial instruments project – chapter included in July 2016 CP.                      |
| International Monetary Fund (IMF) quota subscription | Public sector specific financial instruments project – chapter included in July 2016 CP.                      |
| Currency in circulation                              | Public sector specific financial instruments project – chapter included in July 2016 CP.                      |
| Concessionary loans                                  | Application guidance included in IPSAS 29, and retained in ED 62.   |
| Financial guarantee contracts                        | Application guidance included in IPSAS 29, and retained in ED 62.   |
| Statutory payables                                   | Revenue and non-exchange expenses projects – included in CP expected to be published in summer 2017.          |
| Statutory receivables                                | Revenue and non-exchange expenses projects – included in CP expected to be published in summer 2017.          |
| Public sector specific securitizations               | Application guidance included in ED 62.   |

4. The IPSASB published a CP in July 2016: [Public Sector Specific Financial Instruments](#), that deals with the recognition and measurement of the following:
  - (a) Monetary gold;
  - (b) Currency in circulation;
  - (c) IMF quota subscription; and

(d) Special drawing rights.

In this CAG paper, these transactions will be referred to collectively, as the transactions in scope of the CP.

*Scope and Public Interest Rationale for the Project*

5. When the project brief was approved in December 2013, the original scope was wider than that of the current project, and also included public sector specific securitizations as well as statutory payables and receivables. As the project developed, the IPSASB considered that some transactions were more appropriately dealt with in other projects. This change in scope impacts the public interest issues of the project.
6. The transactions in the scope of the project and CP may relate to either the central government (government department or ministry), or the central bank (which may apply national or international financial reporting standards for the private sector). The government departments, ministries and central banks that deal with these transactions are known collectively as 'monetary authorities. The CP specifically notes the following in paragraph 1.8: *"Some topics in scope of the CP apply to specific entities such as central banks, which may apply national or international financial reporting standards for the private sector. Central banks are important to the public sector, and it is therefore important for the IPSASB to consider developing guidance for these entities. Central banks often form part of the public sector as they are controlled and consolidated into the financial accounts of the central government, regardless of whether they apply national or international financial reporting standards for the private sector."*
7. When the project was approved the rationale for the project was as follows:
  - (a) The issues were noted as likely to only impact a small number of entities (central government or central bank), but the transactions were expected to be significant and material to those entities;
  - (b) The lack of authoritative accounting guidance for the transactions in scope of the project was thought to promote diverse accounting outcomes.
8. The public interest need for the project was further refined in paragraph 1.7 of the CP as follows:

*"The items included in this project have public interest implications because of their significance to the public sector and the service delivery objectives of public sector entities. These issues are important because they allow users to assess public sector entities' ability to:*

  - *Deliver services effectively;*
  - *Manage the resources used and available to provide services; and*
  - *Manage liquidity and solvency."*
9. At the June 2017 meeting the IPSASB will undertake a high level discussion of responses to the CP and consider the next steps for this project. Staff identifies that the key issue the IPSASB needs to consider is the scope and approach for the next phase of the project. This full discussion on the project's next steps by the IPSASB will occur in early 2018, when a more comprehensive review of responses is presented to the IPSASB and considered along with the progress of the core project to update IPSAS 29 for IFRS 9<sup>1</sup>.

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<sup>1</sup> ED 62 for the IPSASB 28-30 update project is expected to be approved in summer 2017 with a review of responses to the ED to follow in early 2018.

10. The decisions the IPSASB must take on scope are complicated by the range of respondents to this CP and their views on the appropriate output for this project, as there is a lack of clear consensus. Therefore, the CAG is asked to advise on the public interest aspects of different approaches advocated by respondents for IPSASB consideration when the full analysis of CP responses is undertaken.

## Responses Received and Views on Scope

11. Overall, 31 responses were received to the CP, which is similar to other recent IPSASB consultations in overall numbers. However, based on the amount of outreach undertaken by staff, IPSASB members, technical advisors and observers, the response level was less than expected.
12. Issues which may have limited the engagement on the CP are:
- (a) The topics in scope in the CP are very specific and there are a limited number of entities with exposure to the issues (usually one or two entities in each jurisdiction only). Further, this limits the number of people with a depth of experience and understanding of the topics covered by the CP in each jurisdiction;
  - (b) Some potential respondents expected to have interest in the CP have not engaged for a few different reasons, including:
    - (i) Concerns with sharing a formal public response to the CP.
    - (ii) Some felt that the CP was not applicable as they follow guidance other than IPSASs (such as national standards or IFRS).
13. Table 6.1 below categorizes the responses by type of entity by the expected direct experience/exposure to the transactions in scope of the CP.

Table 6.1

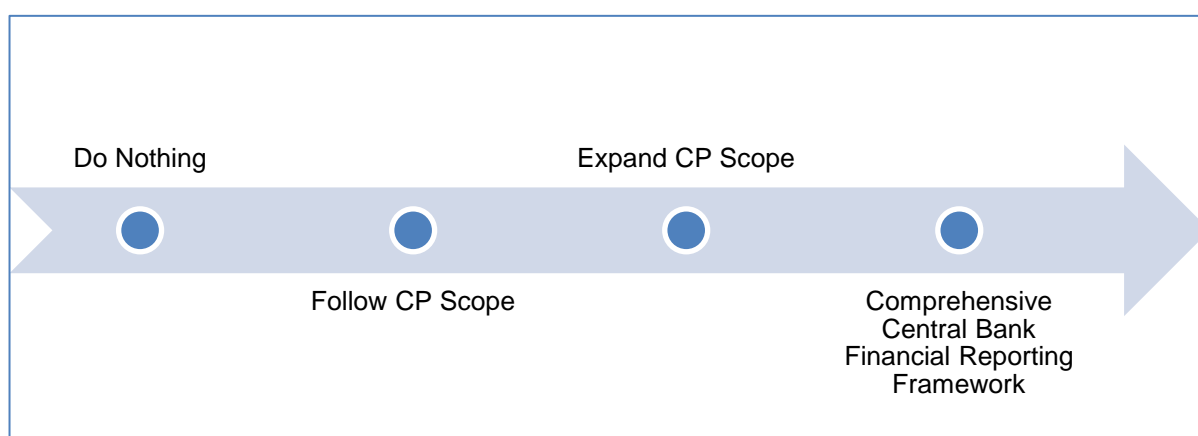
| <b>Categorization<sup>2</sup> of Respondents</b>   | <b>Responses by Category</b> |
|--|------------------------------|
| A - Central Governments/Central Banks/Central Bank Experts   | 7                            |
| B - International Organizations (IMF, World Bank and OECD)<br><i>These respondents all have international activities and experts with experience in dealing with the transactions in scope of the CP.</i>  | 3                            |
| C - Standard Setters<br><i>Some standard setters have consulted with monetary authorities for advice on the transactions in scope of the CP.</i>   | 6                            |
| D – Others<br><i>This group represents a range of different institutions and individuals, such as accountancy institutes, accounting firms and local government auditors with a range of experience in dealing with the transactions in scope of the CP.</i> | 14                           |

<sup>2</sup> This categorization is different than the regular breakdown of responses undertaken by the IPSASB. This categorization is used to organize the entities which have responded in categories that represent their direct exposure to the transactions in scope of the CP.

14. Within each and across the different categories noted in table 6.1, there are a range of perspectives and views on the available approaches to develop guidance for transactions covered in the scope of the CP. Staff and the IPSASB will need to consider the public interest reasons put forward in forming a decision on the most appropriate approach.

*Continuum of Approaches Advocated in Responses*

15. Although the responses still need to be further analyzed by staff and the IPSASB, it is clear that views vary on how guidance for monetary authority transactions should be developed and what the output for any project should include.
16. A continuum setting out suggested approaches from respondents is noted on the diagram below.



*Diagram 6.1 – Common Suggested Approaches from Respondents*

17. **Do nothing.** The respondents supporting this approach generally feel that there is not a compelling need for additional guidance. However, the reasons supporting this approach vary. Some points cited supporting this approach are:
- (a) The transactions in scope of the CP can be covered by the financial instruments guidance already in place;
  - (b) The lack of specific guidance for the transactions in scope of the CP does not present a significant problem because guidance exists elsewhere, such as the Government Finance Statistics Manual, the System of National Accounts and the Balance of Payments and International Investments Position Manual.
  - (c) Some question if the IPSASB is the right body to develop such guidance, noting that from their perspective the transactions in scope of the CP are better addressed by the IASB<sup>3</sup>. This subset of respondents feels that the transactions covered in the CP are mainly applicable to central banks, which mostly apply IFRS or other national standards designed for the private sector. Therefore, they question if the IPSASB should expend further resources on this project.

*Public Interest Consideration.* Although some may question the public interest need for additional guidance, these views are not universal. The issue as to whether the IPSASB is the right body to

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<sup>3</sup> The IASB does not have any project or ongoing activities on its current work plan. Further, the IASB has not indicated that it intends to undertake work in this area.

develop the guidance is one that will need consideration, as the views set out in the CP on why the IPSASB is undertaking the project have been challenged by some respondents.

**Questions to the CAG:**

- *Is specific guidance for the transactions in scope of the CP generally in the public interest?*
- *Is the IPSASB the right body to address that?*
- *Can the public interest be served by an approach where the IPSASB does not develop guidance for these transactions?*

18. **Follow CP Scope.** The respondents in this category advocate for a range of approaches to developing guidance for the transactions in scope of the CP, as follows:

- (a) Amendments to develop additional authoritative guidance to include with existing financial instruments standards (such as application guidance; comparable to the approach for concessionary loans and financial guarantees issued through Non-Exchange Transactions);
- (b) Amendments to develop additional non-authoritative guidance to include with existing financial instruments standards (such as illustrative examples and implementation guidance; comparable to the approach followed in ED 62, where additional public sector guidance has been added to help with the use and application of the core principles in the standard in a public sector context);
- (c) Develop new standard(s) addressing the transactions in scope of the CP; or
- (d) Hybrid of approaches noted in (a)-(c).

*Public Interest Consideration.* The respondents in this group generally support the scope set out in the CP. However, there is diversity in the views of what the final output should be and approaches to advance the project. The IPSASB will need to consider the pros and cons of the different possible approaches if this option is followed.

**Question to the CAG:**

*Provided the IPSASB is the right body to address the topic, is the public interest served by following approaches suggested in line with the scope of the CP?*

19. **Expand CP Scope.** The respondents supporting an expanded scope, do not feel that guidance should be limited to the transactions in scope of the CP and advocate for addressing additional issues (such as all reserve assets<sup>4</sup>). Further, some advocate for an even broader scope with guidance developed for all financial instruments held by monetary authorities.

*Public Interest Consideration.* Respondents in this category advocate expanding the scope of the CP to develop further public sector specific guidance for more types of transactions (including those already covered by IPSAS financial instruments standards). The IPSASB will need to consider if respondents' arguments to increase the scope of the project are compelling. One issue to consider is whether it makes sense to commit the additional resources that would be needed

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<sup>4</sup> Paragraph 2.7 notes that reserve assets comprise of monetary gold, foreign currency, highly liquid investments and SDRs. The IPSASB agreed to only consider monetary gold and SDRs within the scope of the CP, as applicable IPSAS guidance already exists for accounting for foreign currency and highly liquid investments.

to expand the project scope, to address transactions already covered under other existing IPSASs.

**Question to the CAG:**

*Provided the IPSASB is the right body to address the topic, is the public interest served by expanding the scope of the CP?*

20. **Comprehensive Central Bank Financial Reporting Framework.** The respondents supporting this believe that central banks should have different treatments for transactions beyond the scope of the CP. Many of those supporting this view advocate that the transactions in the scope of the CP do not present the biggest issues or challenges from a financial reporting perspective. They consider that the biggest issue faced by central banks<sup>5</sup> is the distribution of dividends based on unrealized gains and losses due to changes in foreign exchange rates. Further, this group views the current presentation and disclosure requirements as challenging (both IPSAS and IFRS), because of the supervisory/regulatory role of central banks in the financial sector. An example provided is that central banks should not disclose investments in commercial banks when they provide capital to help stabilize the financial sector due financial events. They see this as counter to their role of trying to help provide stability, because disclosing banks in distress is likely to cause the public to lose faith in the banks receiving support.

*Public Interest Consideration.* Respondents in this category put forward the view that because of the unique attributes of central banks and their role in overseeing the financial system in most jurisdictions, they need a more comprehensive fit for purpose financial reporting framework. However, the IPSASB would be likely to encounter a number of issues if it followed the approach to significantly expand the project scope. Firstly, the public interest rationale for not following its own long standing policy of not developing industry specific guidance would need to be considered. Further, the IPSASB would need to carefully consider if the IPSASB is the right body to undertake a comprehensive project. It would be questionable if the IPSASB would have the resources (both for staff and the board) to undertake an expanded project of this nature. If this option is considered it would seem likely that the IASB and other bodies would need to work together along with the IPSASB on a common project. Lastly, the IPSASB will need to consider the relative benefits of an expanded project compared to other projects.

**Question to the CAG:**

*Provided the IPSASB is the right body to address the topic, is the public interest served by the IPSASB developing a comprehensive reporting framework for central banks?*

**Summary**

21. Staff and the IPSASB will consider an initial high level analysis of the comments received on the CP at the June 2017 IPSASB meeting. This will be followed with a further more in-depth review of responses to be undertaken in early 2018 (to be reviewed together with the responses to ED 62 (expected to be published in summer 2017)).

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<sup>5</sup> The IPSASB views the transactions in scope of the CP as applicable to monetary authorities, which includes the central government and the central bank. However, respondents with strong views to expand the scope of the project – often shared their perspectives on the central bank view only.

22. CAG views and perspectives on the issues noted in this paper and the project itself would be valuable input for the IPSASB to consider when deliberating the comments received.

*Issues for CAG Discussion*

23. The **CAG's views are sought** on the following:
- (a) Views on the public interest considerations and specific public interest questions identified for each approach identified in paragraphs 16-20? and
  - (b) Any other public interest considerations not identified above?



## Appendix A: IPSASB Due Process Checklist (condensed to included portions relevant to the CAG)

**Project:** Public Sector Specific Financial Instruments

| #   | Due Process Requirement  | Yes/No | Comments   |
|---|--|--------|--|
| <b>A. Project Brief</b>   |  |        |  |
| A1.   | A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.   | Yes    | The IPSASB considered the project brief at its December 2013 meeting (see <a href="#">Agenda Item 4</a> ).   |
| A2.   | The IPSASB has approved the project in a public meeting.   | Yes    | See the minutes of the <a href="#">December 2013 IPSASB meeting (section 4)</a> .  |
| A3.   | The IPSASB CAG has been consulted on the project brief.  | N/A    | <ul style="list-style-type: none"> <li>This step is not in effect for this project.</li> </ul>   |
| <b>B. Development of Proposed International Standard</b>              |  |        |  |
| B1.   | The IPSASB has considered whether to issue a consultation paper, or undertake other outreach activities to solicit views on matters under consideration from constituents. | Yes    | As stated in the Project Brief, the IPSASB concluded this is a project will have a consultation paper. The consultation paper was issued in July 2016: <a href="http://www.ifac.org/publications-resources/public-sector-specific-financial-instruments">http://www.ifac.org/publications-resources/public-sector-specific-financial-instruments</a> . |
| B2.   | If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft. | Yes    | The IPSASB received 31 comments to the consultation paper. The IPSASB is considering an initial review of responses at the June 2017 meeting.  |
| B3.   | The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.  | Yes    | In June 2017 the CAG will be consulted on the scope of the project, based on issues raised by respondents to the CP.   |
| <b>D. Consideration of Respondents' Comments on an Exposure Draft</b> |  |        |  |
| D4.   | The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.                                    | No     |  |
| D5.   | Significant comments received through consultation with the IPSASB CAG are brought to the  | No     |  |

**Agenda Item 6.2**

| # | Due Process Requirement   | Yes/No | Comments |
|---|---|--------|----------|
|   | IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG. |        |          |

### Appendix B: Links to Other Documents

1. This appendix provides links to document which may be useful to CAG members in providing a background related to the project.
  - (a) IPSASB Public Sector Specific Financial Instruments [project page](#)
  - (b) IPSASB Public Sector Specific Financial Instruments agenda items links:
    - (i) [June 2017](#)