

October 25, 2021

United Nations Statistics Division  
Intersecretariat Working Group on National Accounts  
Two UN Plaza DC2-1516  
New York, NY 10017  
United States of America

Re: Guidance Note: "F.9 Valuation of Loans (Fair Value)"

Thank you for the opportunity to provide input on the Guidance Note: "F.9 Valuation of Loans (Fair Value)".

The following note has been developed by the IPSASB staff, with input from Ian Carruthers, IPSASB Chair. The views in this note are expressly those of IPSASB staff and the IPSASB Chair.

The IPSASB established a formal [policy](#) in 2014 to consider Government Finance Statistics (GFS) reporting guidelines in developing of International Public Sector Accounting Standards (IPSAS). As part of this process, IPSASB staff monitors the differences between IPSAS and GFS in a [Tracking Table](#). The IPSASB's policy was created to ensure that accounting concepts are aligned with relevant statistical guidance, when appropriate, so accrual accounting information can be used for decision-making purposes, including as relevant and reliable inputs for statistical reporting.

The options proposed in the Guidance Note do not help to align the concepts between financial reporting standards (IPSAS and International Financial Reporting Standards (IFRS)) and statistical standards (2008 System of National Accounts (SNA) and Balance of Payments and International Investment Position (BPM6)). We believe that closer alignment may be achievable if the statistical standards update was to consider an option consistent with financial reporting standards guidance on this topic, which is already used globally by both public and private sector entities for financial reporting purposes.

We propose that further consideration of alignment with IPSAS 41, *Financial Instruments* and IFRS 9, *Financial Instruments* for loan accounting in the statistical guidance. We are of the view that IPSAS 41/IFRS 9 fair value measurement faithfully represents the underlying economic phenomenon when accounting for loans because it captures the entirety of the transaction and better reflects the time value of money.

Our responses to the Questions for Discussion are set out in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact João Fonseca ([joaofonseca@ipsasb.org](mailto:joaofonseca@ipsasb.org)).

Kind regards,



Ian Carruthers, IPSASB Chair



João Fonseca, Principal

## APPENDIX

### Questions for Discussion:

- 1) What option do you favor for the valuation of loans: nominal value (Option 1) or fair value (Option 2)?
- 2) If nominal value (Option 1) is the preferred option, do you favor the status-quo of the existing treatment (Option 1a), or its extension allowing for value reset in extraordinary events publicly known (Option 1b)?
- 3) If fair value (Option 2) is chosen instead of nominal value, would you prefer shifting to a full fair value approach (Option 2.b) or would you prefer its simplified version (Option 2.a) based on the measurement of nominal value less expected loan losses?

We do not agree with the options proposed in the Guidance Note for the following conceptual reasons:

- (a) The measurement requirements as specified in IPSAS 41, *Financial Instruments* and IFRS 9, *Financial Instruments* faithfully represent the underlying economic phenomenon of loans because it allows an entity to capture the entirety of the transaction (fair value plus or minus transaction costs<sup>1</sup>) and better reflects the time value of money (for example, in the case of interest-free loans<sup>2</sup>), as opposed to nominal value.
- (b) The fair value measurement approaches proposed in Options 2a and 2b are different from the fair value measurement in IPSAS 41/IFRS 9 because:
  - i. Option 2a proposes a simplified estimate of fair value, based on nominal value less expected loan losses, as opposed to initial recognition at fair value under IPSAS 41/IFRS 9; and
  - ii. Option 2b proposes full fair value at any time for all loans in the core accounts, as opposed to remeasurement only in case of revisions to and modifications of expected cash-flows that results from original contractual terms or from modification of contractual terms under amortized cost in IPSAS 41/IFRS 9.

Option 2a shares some similarities with the guidance in IPSAS 41 and IFRS 9. For example, the value of loans under both Option 2a and IPSAS 41/IFRS 9 require any expected loan losses be subtracted. However, because Option 2a requires measurement of loans at nominal value it doesn't always appropriately reflect the time value of money.

We disagree with Option 2b because it proposes remeasurement of loans at any time. Our view is that loans held by entities with the intention to collect interest and principal should not be remeasured, unless the remeasurement results from the revision or modification of expected cash flows stated in the original contractual terms or result from modifications of contractual terms.

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<sup>1</sup> Where a borrower receives a loan of CU100, but incurs transaction costs of CU2, IPSAS presents the value of the loan as CU98. IPSAS takes the view that the amount borrowed is actually CU98 and presenting it as such better represents the economics of the transaction.

<sup>2</sup> IPSAS takes the view that loans with contractual interest rates below market rates include an embedded concession. IPSAS require this concession be separated and transparent to the users of the financial information. Measuring the loan initially at fair value facilitates the bifurcation of the concession component.

In addition to the arguments noted above, we also highlight the following benefits supporting increased alignment with the concepts in IPSAS 41/IFRS 9:

- (a) **Existence of guidance on fair value measurement**—both IPSAS 41 and IFRS 9 provide detailed guidance on how to account for loans, including how to apply fair value measurement. The accounting concepts are aligned and consistent in both IPSAS and IFRS and are globally applied for financial reporting.
- (b) **Existence of financial reporting information**—if the statistical concepts are aligned and consistent with those in accounting, then IPSAS and IFRS-based financial statements can be used directly without modifications by statistical compilers for national accounts and balance of payments purposes.
- (c) **Specific adjustments from financial reporting to statistical reporting**—as the Guidance Note highlights, in some specific situations where symmetry is not achieved using IPSAS/IFRS numbers (which would be a statistical requirement), it is always possible to apply some expedients (already used in statistical guidelines for similar situations) on an exception basis, without breaking the general principle of fair value/amortized cost measurement for loans, while ensuring symmetry of accounting for statistical purposes. For example, the numbers from the creditor side can be used for the debtor side.

We also highlight that both IPSAS 41 and IFRS 9 include additional specific guidance that is not included in the proposals (for example, guidance related to classification of financial instruments, initial measurement and subsequent measurement, etc.).

We recommend that similar guidance be considered for inclusion in the statistical standards in order to help compilers in the production of statistics aligned with financial reporting.