International Public Sector Accounting Standards Board®

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Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 5**	For:
Meeting Location:	Virtual Meeting		☒ Approval ☐ Discussion ☐ Information
Meeting Date:	September 14–18 and 22, 2020		

PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS (PSSFI)

Project summary	To consider the appropriate accounting treatment for items in scope of the public sector specific financial instruments project.	
Task Force members	• Marc Wermuth, IPSASB Member (*Task Force Chair*) • Dr. James Jung, IPSASB Member (On leave during Q3 2020) • Leona Melamed, IPSASB Technical Advisor • Jani Laakso, International Finance Corporation • Jeanine Poggiolini, Accounting Standards Board, South Africa	
Meeting objectives	***Topic***	***Agenda Item***
Project management	PSSFI: Project Roadmap	5.1.1
	Instructions up to Previous Meeting	5.1.2
	Decisions up to Previous Meeting	5.1.3
Decisions required at this meeting	Summary of Updates to [draft] Amendments to IPSAS 41	5.2.1
	Approval of *Amendments to IPSAS 41,* Financial Instruments	5.2.2
Other supporting items	*Amendments to IPSAS 41, Financial Instruments*	5.3.1
	Q&A Outline	5.3.2

Prepared by: Eileen Zhou (August 2020)

Agenda Item 5.1.1

PSSFI: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
June 2019	1. Approve Exposure Draft for comment 2. Decision on exposure period
September 2019	1. Out for comment
December 2019	1. Out for comment
July 2020	1. Review responses to ED 2. Discussion of Issues
September 2020	1. Approve final pronouncement

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	**Instruction**	**Actioned**
July 2020	1. Provide an outline of the Staff Question and Answers (Q&A) to the IPSASB and an overview of the process and timeline for developing it.	1. See revisions to BCs in Agenda Item 5.3.2.
July 2020	2. Update Basis for Conclusions (BCs) paragraphs for consistency and elaborate key deliberations from past IPSASB meetings.	2. See revisions to BCs in Agenda Item 5.3.1.
July 2020	3. Review the use of “Definitions” in the Implementation Guidance (IGs) ‘Section B Headings’, and amend where appropriate.	3. See clarification added under Section heading in Agenda Item 5.3.1.
July 2020	4. Clarify the wording in proposed Illustrative Example (IE) 211 footnote to emphasize “similar organization” rather than “similar instrument”.	4. See revision in Agenda Item 5.3.1.

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
July 2020	1. Approve the recommendations to address the responses to the ED 69.	1. See BCs in Agenda Item 5.3.1.
June 2019	1. All decisions made up until June 2019 were reflected in the Exposure Draft on Public Sector Specific Financial Instruments, Amendments to IPSAS 41, *Financial Instruments*.	1. All decisions made up until June 2019 were reflected in the Exposure Draft on Public Sector Specific Financial Instruments, Amendments to IPSAS 41, *Financial Instruments*.

Summary of Updates to [draft] Amendments to IPSAS 41

Question

1. Does the IPSASB agree with Staff's revisions to the [draft] *Amendments to IPSAS 41*?

Recommendations

2. Staff recommend the following revisions to the draft pronouncement based on Board member comments:

   (a) **Basis for Conclusions revisions**. To improve flow, confirm key Board's decisions are captured, and clarify how definitions from statistical sources were considered in assessment of in-scope public sector specific items;

   (b) **Clarification under Section B heading**. To clarify that this non-authoritative guidance is on whether certain transactions meet the IPSAS 41 definition; and

   (c) **Other minor editorial changes**. To clarify guidance, such as the IE211 footnote.

   The revisions to [draft] *Amendments to IPSAS 41* are presented in Agenda Item 5.3.1 for approval.

Background

3. In July 2020, the IPSASB reviewed Task Force recommendations to address comments received in response to Exposure Draft (ED) 69. These recommendations were presented in a [draft] *Amendments to IPSAS 41* (July 2020 Agenda Item 1.3.2). The Board approved the recommendations to address respondent comments, with minor instructions.

Analysis

4. Staff assessed and addressed the Board instructions as follows:

   (a) **Basis for Conclusions (BCs):** Staff reviewed order and wording of the BCs and made revisions to ensure BCs are clear and concise and key Board deliberations leading from the Consultation Paper (CP) to ED 69 are captured. Staff added documentation to clarify how definitions from statistical sources were considered in assessment of in-scope public sector specific items.

   (b) **Implementation Guidance (IG) Section B Heading:** Staff reviewed the use of the word "Definitions" in the Section B heading. Section B is intended to provide non-auth guidance on whether certain transactions meet the definitions per IPSAS 41, rather than to define items. This supports retaining the existing heading (i.e., using the word "Definition"), and adding clarification under the header to avoid confusion (see Agenda Item 5.3.1).

   (c) **IE211 clarification:** Staff revised the wording in the footnote to focus on "similar organizations".

5. Staff also addressed minor editorial changes to improve the Amendment's readability.

Decisions Required

6. Does the IPSASB agree with Staff recommendations?

Approval of Amendments to IPSAS 41, Financial Instruments

Purpose

1. The IPSASB is asked to approve *Amendments to IPSAS 41,* Financial Instruments, and to agree the effective date for the standard.

Due Process

2. The IPSASB released its Exposure Draft (ED) 69 for Public Sector Specific Financial Instruments (PSSFI) on August 27, 2019. This ED proposed additional non-authoritative guidance in IPSAS 41, *Financial Instruments*, to clarify the requirements for classifying, recognizing, and measuring PSSFI. The comment period closed December 31, 2019. From December 31, 2019 to July 28, 2020:

    (a) Staff reviewed and analyzed 19 comment letters;

    (b) The Task Force reviewed the comment letters in July 2020 and developed recommendations for the IPSASB's consideration;

    (c) IPSASB reviewed the Task Force recommendations and a [draft] *Amendments to IPSAS 41* at the July 28, 2020 Virtual Meeting and provided minor instructions; and

    (d) Staff have actioned instructions received (see Agenda Item 5.2.1).

3. When the staff are satisfied a proposed amendment to IPSAS is ready for approval, IPSASB's Due Process and Working Procedures sets out the necessary steps to facilitate approval of the standard (bolded procedures require action by the IPSASB):

    (a) Staff present the revised content of the exposed international standard to the IPSASB;

    Agenda Item 5.3.1 includes all changes in mark-up.

    (b) The IPSASB Technical Director advises the IPSASB on whether due process has been followed effectively;

    Ross Smith, the IPSASB Program and Technical Director, asserts due process has been followed effectively, noting that:

    - ED 69, Public Sector Specific Financial Instruments Amendments to IPSAS 41, *Financial Instruments*, was issued for consultation;
    - Responses to the ED were received and made publicly available on the IPSASB website;
    - The IPSASB has deliberated matters raised in the comment letters, and significant decisions have been recorded in the draft minutes of the July 2020 virtual meeting. Further decisions at this meeting will be minuted; and
    - The IPSASB will be asked to consider whether there are any issues raised by respondents, in addition to those summarized by staff, which it considers should be discussed by the IPSASB, and agree that there are none.

    (c) The IPSASB confirms whether or not it is satisfied the due process has been followed effectively;

(d) ***The IPSASB votes on the approval of the final revised content of an amendment to IPSAS in accordance with its terms of reference;***

(e) ***The IPSASB considers whether there has been a substantial change to the exposed document such that a vote on re-exposure is necessary;***

Ross Smith, the IPSASB Program and Technical Director, in consultation with Ian Carruthers, the Chair of the IPSASB, advises the IPSASB that no substantial changes have been made to ED 69, Public Sector Specific Financial Instruments Amendments to IPSAS 41, *Financial Instruments*, such as to necessitate re-exposure.

Changes to ED 69, reflect matters raised in comment letters. These changes enhance the interpretation of the principles in IPSAS 41 to help constituents apply the standard in practice. No principles were altered.

(f) ***The IPSASB sets an effective date for the application of the Amendments to IPSAS 41;***

Staff recommend an effective date of January 1, 2023. The aligns with the effective date for IPSAS 41 proposed in ED 73 reviewed by the IPSASB in July 2020. An effective date of January 1, 2023 provides an implementation period of 2 years 3 months.

(g) ***The IPSASB issues Basis for Conclusions with respect to comments received on an exposure draft.***

See Agenda Item 5.3.1.

Decisions Required

4. The IPSASB is asked to:

(a) Confirm it is satisfied there are no additional issues raised by respondents it considers should be discussed by the IPSASB;

(b) Confirm it is satisfied that due process has been followed effectively;

(c) Approve *Amendments to IPSAS 41*, Financial Instruments;

(d) Confirm there has been no substantial change to ED 69 such that a vote on re-exposure is necessary; and

(e) Set an effective date of January 1, 2023 for *Amendments to IPSAS 41*, Financial Instruments.

Supporting Documents 1 – [draft] Amendments to IPSAS 41, Financial Instruments

1. Staff have included a marked-up version of the *Amendments to IPSAS 41* pronouncement. This version reflects recommended revisions based on the Task Force's detailed analysis of comment letters received in response to the August 2019 [draft] ED (see July 2020 Agenda Item 1.2.2) as well as Board comments from the July 2020 Virtual Meeting.

2. Track changes reflect revisions based on instructions provided by the IPSASB at the July 2020 Virtual Meeting.

[DRAFT] Final Pronouncement
October 2020

IPSAS®

[PROPOSED] International Public Sector Accounting Standard®

Amendments to IPSAS 41, *Financial Instruments*

IPSASB International Public Sector Accounting Standards Board®

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In meeting this objective the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

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Amendments to IPSAS 41 *Financial Instruments*

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 41.

Introduction

…

BC3. The IPSASB acknowledges that there are other ~~aspects of~~ financial instruments and items with some financial instruments characteristics as defined in IPSAS 41, in~~sofar as they relate to~~ the public sector, which are not addressed in IFRS 9. The IPSASB has undertaken separate projects on *Public Sector Specific Financial Instruments*, and *Revenue and Non-exchange Expenses,* to address:

(a) Certain transactions undertaken by monetary authorities; and

(b) Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature.

Public Sector Specific Financial Instruments

BC3A. In developing IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures*, the IPSASB identified several items ~~which have~~with public sector specific characteristics that may be public sector specific financial instruments (PSSFIs). These items identified during the initial financial instruments project as ~~"Public Sector Specific Financial Instruments"~~ possible PSSFIs were:

- Monetary gold;
- ~~Special Drawing Rights (SDRs);~~
- International Monetary Fund (IMF) quota subscriptions;
- IMF Special Drawing Rights (SDRs);
- Currency in circulation;
- Statutory receivables / payables;
- Concessionary loans; and
- Financial guarantee contracts.

BC3B. Two public sector specific ~~issues~~items — concessionary loans and financial guarantee contracts issued through non-exchange transactions — met the definition of a financial instrument and were addressed in the application guidance in IPSAS 41. ~~Both instruments meet the definition of a financial instrument.~~ As statutory receivables and payables are not contractual, the IPSASB agreed to address these instruments in a separate project.

BC3C. The IPSASB agreed to address the remaining ~~issues through~~ public sector specific items in a ~~Public Sector Specific Financial Instruments~~PSSFI project. In July 2016, the IPSASB issued a Consultation Paper (CP), *Public Sector Specific Financial Instruments* which provided a detailed analysis of these items. This analysis included definitions, which were developed to reflect the substance of these items as well as conventions included in IPSAS and discussions by the IPSASB related to the transactions in an accounting context. The IPSASB intended for these definition to have the same substance as guidance included in the various Government Finance Statistics manuals referenced.

BC3D. Respondents to the ~~Consultation Paper (~~CP~~), *Public Sector Specific Financial Instruments* (issued in July 2016) indicated~~ agreed:

(a) Several ~~PSSFI met~~ of the items meet the definition of a financial instrument in IPSAS ~~41~~ and therefore should be addressed in existing guidance; and

(b) Items that meet the IPSAS definition of a financial instrument should be accounted for ~~Specific responses to Preliminary Views (PVs) and Specific Matters for Comments (SMCs) in the CP were consistent~~in accordance with existing IPSAS ~~41~~ accounting principles.

In considering these responses to the CP, the IPSASB ~~agreed~~concluded, where possible, that ~~Public Sector Specific Financial Instruments~~PSSFIs should be addressed in the current financial instruments standards and the scope should be retained. This eliminated the need to incorporate the detailed analysis and definitions from the CP into amendments to IPSAS 41 as sufficient principles exist in IPSAS 41 to account for PSSFI items. ~~The IPSASB concluded the analysis reflected in the CP was useful, and allowed the Board to determine the approach. However, it was not necessary to carry forward the analysis to the amendments to IPSAS 41 as principles consistent with responses to the CP already existed in IPSAS 41. The IPSASB noted while definitions were not necessary, additional non-authoritative guidance would help users identify these specific financial instruments. In consultation with constituents, the IPSASB concluded the output of the project should focus on the application of IPSAS 41 to PSSFI within the scope of the CP and this scope should not be expanded. PVs on recognition and measurement of PSSFI was not replicated as sufficient guidance on recognition and measurement exist in IPSAS 41.~~

BC3E. The IPSASB noted that additional non-authoritative guidance would help users identify these specific financial instruments, and developed additional implementation guidance for monetary gold, currency in circulation and Special Drawing Rights. ~~T~~ However, the IPSASB noted the features of IMF quota subscriptions are consistent with those in Illustrative Example 32 in IPSAS 41 and decided that additional guidance for quota subscriptions was not required. The IPSASB concluded that the additional illustrative examples and augmented implementation guidance provide appropriate guidance for accounting for the~~se~~ three public sector specific types of financial instruments.

BC3F. The IPSASB issued Exposure Draft (ED) 69 in August 2019 that proposed amendments to IPSAS 41 to illustrate the application of IPSAS 41 to PSSFIs. These amendments included the non-authoritative guidance noted in BC3E. Respondents to the ED supported the direction taken by the IPSASB and the amendments proposed in the ED.

…

Gold Bullion

BC18. Gold bullion does not meet the definition of a financial instrument as defined in IFRS 9. Given the IPSASB proposals in its ~~Public Sector Specific Financial Instruments~~ PSSFI project related to monetary gold, the IPSASB considered whether this was appropriate. The IPSASB noted that gold bullion has a wider meaning than monetary gold, and for entities that are not monetary authorities, the guidance is appropriate. The IPSASB therefore agreed to include Implementation

Guidance B.1. ~~The IPSASB will reconsider this matter when it concludes its Public Sector Specific Financial Instruments project.~~

Monetary Gold

BC18A. As part of the ~~Public Sector Financial Instruments~~ PSSFI project, the IPSASB considered accounting for gold held by monetary authorities as reserve assets that are available to them in carrying out their mandates, i.e., monetary gold. Some constituents indicated the scope of IPSAS 41 should be expanded to include monetary gold as it shares several characteristics with a financial asset. For example, monetary gold is:

a. Readily convertible into cash;

b. Quoted globally in US dollars;

c. Easily traded with willing counterparties (durable, divisible and portable);

d. Accepted as a form of payment by some central banks; and

e. A store of wealth.

Furthermore, monetary gold can be held:

a. For its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets; and

b. For an indeterminate period of time, because it provides confidence in the monetary authority's financial strength and ability to carry out its activities.

BC18B. In considering the responses to the ~~Consultation Paper, *Public Sector Specific Financial Instruments*~~CP, the IPSASB confirmed its view that monetary gold is not a financial instrument. Although monetary gold is highly liquid, there is no contractual right to receive cash or another financial asset.

BC18C. The IPSASB also confirmed that the scope of IPSAS 41 should not be expanded. Nevertheless, the IPSASB ~~noted that~~ considered whether applying the principles in IPSAS 41 to monetary gold may be appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

BC18D. The IPSASB concluded that, while monetary gold ~~shares many~~ has some characteristics ~~with~~ of a financial asset, as noted in paragraph BC18A, the hierarchy set out in IPSAS 3 requires an entity to assess all facts specific to the circumstances related to the holding of monetary gold. Should an entity account for monetary gold using principles consistent with those applied to financial assets, the IPSASB expects all classification and measurement requirements set out in IPSAS 41 to be applied.

…

Illustrative Examples

These examples accompany, but are not part of, IPSAS 41.

…

Example 32—Capital Subscriptions Held with Redemption Features

IE211. In order to participate in and support the activities of International Development Bank A, or similar international organization,[1]~~,~~ Federal Government B invests and acquires a fixed number of subscription rights in International Development Bank A, based on Government B's proportional share of global Gross Domestic Product. Each subscription right costs CU1,000, which provides Government B with the right to put the subscription rights back to Bank A in exchange for the initial amount invested (i.e., CU1,000 per subscription right). International Development Bank A has no obligation to deliver dividends on the subscription rights.

…

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 41.

…

Section B Definitions

Section B is intended to provide non-authoritative guidance on whether certain transactions meet the definitions per IPSAS 41 and is not intended to define items.

B.1 Definition of a Financial Instrument: Gold Bullion

Is gold bullion a financial instrument (like cash) or is it a commodity?

It is a commodity. Although bullion is highly liquid, there is no contractual right to receive cash or another financial asset inherent in bullion.

B.1.1 Definition of a Financial Instrument: Monetary Gold

Is monetary gold a financial instrument (like cash)?

No. Similar to gold bullion, monetary gold is not a financial instrument as there is no contractual right to receive cash or another financial asset inherent in the item. However, given that monetary gold has many of the characteristics of a financial asset, applying the principles set out in IPSAS 41 is generally appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. It may however be appropriate for an entity to consider other IPSAS depending on the facts and circumstances related to its holding of monetary gold.

B.1.2 Public Sector Specific Financial Instruments

B.1.2.1 Definition of a Financial Instrument: Currency Issued as Legal Tender

Does issuing currency as legal tender create a financial liability for the issuer?

It depends. Currency derives its value, in part, through the statutory arrangement established between the issuer and the holder of the currency whereby currency is accepted as a medium of exchange and is recognized legally as a valid form of payment. In some jurisdictions, this statutory arrangement further obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.

[1] An example of a similar international organization that issues such instruments includes the International Monetary Fund ~~(IMF quota subscriptions)~~.

For the purposes of this Standard, an entity considers the substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash. Contracts are evidenced by the following:

- Willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract; and
- The remedy for non-performance is enforceable by law.

When laws and regulations or similar requirements enforceable by law, such as a ~~b~~Banking ~~a~~Act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a “contract” exists for the purposes of this Standard. A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Where no financial liability exists, an entity should consider whether an obligation is created in accordance with paragraphs 22-43 of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Prior to currency being issued, there is no transaction between willing parties. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, *Inventories,* in accounting for any unissued currency.

B.1.2.2 Definition of a Financial Instrument: Special Drawing Rights (SDR) Holdings

Do Special Drawing Rights (SDR) Holdings ~~(SDR)~~ meet the definition of a financial asset?

Yes. SDR holdings represent a claim on the currencies of members of the International Monetary Fund (IMF). SDR’s can be used in transactions with the IMF or can be exchanged between participants of the IMF’s SDR Department. Liquidity is guaranteed by a mechanism requiring participants to deliver cash in exchange for SDRs. Accordingly, SDR holdings are regarded as a financial asset.

B.1.2.3 Definition of a Financial Instrument: Special Drawing Rights (SDR) Allocations

Do Special Drawing Rights Allocations meet the definition of a financial liability?

Yes. SDR allocations represent the obligation assumed when SDR holdings are distributed to members. IMF members must stand ready to provide currency holdings up to the amount of their SDR allocation. This represents a contractual obligation to deliver cash. Accordingly, SDR allocations are regarded as a financial liability.

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5.3.1

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Supporting Documents 2 – Draft Q&A Outline

Purpose

1. To provide a draft outline of the Staff Questions and Answers (Q&A) for the Public Sector Specific Financial Instruments (PSSFI) project.

Background

2. In July 2020, the IPSASB requested an outline of the Staff Q&A to the IPSASB and an overview of the process and timeline for developing it.

Analysis

Outline

3. Staff plan to include the following questions in the Staff Q&A:
   (a) Several public sector specific items have been identified. Are these items public sector specific financial instruments (PSSFIs)?
   (b) Is monetary gold accounted for and distinguished under IPSAS?
   (c) Why did the IPSAS address monetary gold from a public sector perspective?
   (d) Does IPSAS include examples developed for public sector items?
4. The wording of these questions will be updated during the development of the Staff Q&A, however the themes reflected in paragraph 3 will be included in the document.

Timing

5. The Staff Q&A will be developed in Q4 2020 and released in conjuction with Amendments to IPSAS 41, *Financial Instruments*. Specific members of the Task Force will be included in the process to review the document.

Decision required

6. No decision required. This agenda item is for information purposes only.