December 31, 2016

International Public Sector Accounting Standards Board

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, NY 10017

Re: The comments of KICPA and KIPF on the Consultation Paper, Public Sector Specific Financial Instruments

Dear John Stanford,

The Korean Institute of Certified Public Accountants (KICPA) and Korea Institute of Public Finance (KIPF) are pleased to comment on the Consultation Paper (CP) issued by the International Public Sector Accounting Standards Board (IPSASB), regarding "Public Sector Specific Financial Instruments." KICPA and KIPF are strong advocates of IPSASB for your relentless efforts to enhance the quality, consistency, and transparency of public sector financial reporting.

The response was prepared in collaboration of the KICPA and the Government Accounting and Finance Statistics Center (Center) in the KIPF, a national think tank that has played a critical role in the development of tax and fiscal policy. The Center conducts researches on the accounting system of central government/public sectors and government financial statistics. For further information, please visit the website here. http://gafsc.kipf.re.kr/eng/Main.aspx.

Considering the coverage and context of CP, we also included the on-going circumstances of the Bank of Korea, our central bank and issuer of Korean won.

Please do not hesitate to contact us if you have any questions regarding our comments. You may direct your inquires either to us or technical directors of each organization, Anna Yoon (global@kicpa.or.kr) and Stella Sunjae Kim (sjkim@kipf.re.kr).

Faithfully,

Yeong Kyun Ahn	Do-Jin Jung
Vice President for Research and Education KICPA	Executive Director Government Accounting and Finance Statistics Center, KIPF

<Preliminary View – Chapter 2 (following paragraph 2.9)>

Definitions are as follows:

(a) Monetary authority is the entity or entities, including the central bank or a department(s) of the central (national) government, which carry out operations usually attributed to the central bank.

(b) Reserve assets are those external assets held by monetary authorities that are readily available for balance of payments financing needs, intervention in the currency markets to affect exchange rates and maintaining confidence in the currency and the economy.

Do you agree with the IPSASB's Preliminary View – Chapter 2?

[Our comment]

Yes. We agree with the Preliminary View. As the word of "external assets" is not commonly used, however, we advise you provide detailed explanations on its definition when developing the standards.

<Preliminary View – Chapter 3-1 (following paragraph 3.10)>

Definition is as follows:

(a) Currency in Circulation is physical notes and coins with fixed and determinable values that are legal tender issued by, or on behalf of the monetary authority, that is, either that of an individual economy or, in a currency union to which the economy belongs.

Do you agree with the IPSASB's Preliminary View – Chapter 3-1?

[Our comment]

Yes. We are for the Preliminary View.

<Preliminary View – Chapter 3-2 (following paragraph 3.30)>

(a) Notes and coins (currency) derive value because they are legal tender and accepted as a medium of exchange and therefore serve the same purpose and function in the economy. As the purpose and function of notes and coins is the same, the IPSASB's view is the accounting treatment should be consistent for both (as noted in paragraph 3.12), with the recognition of a liability when issued.

Do you agree with the IPSASB's Preliminary View – Chapter 3-2?

[Our comment]

Yes. No additional comments.

<Specific Matters for Comment – Chapter 3-1 (following paragraph 3.43)>

(a) When the monetary authority assesses that a present obligation does not exist as a result of the issuance of currency, because of the absence of a legal or non-legally binding obligation (approach 1), it results in the recognition of revenue (approach 2), please explain your view and your thoughts on what is the appropriate financial statement in which to recognize revenue:

(i) Statement of financial performance; or

(ii) Statement of net assets/equity?

Please provide the reasons for your support of your preferred option, including the conceptual merits and weaknesses; the extent it addresses the objectives of financial reporting and how it provides useful information to users.

[Our comment]

We believe which one is appropriate could differ on an entity basis. That is, whether an entity gives priority to its performance or its financial position could make a difference. From the perspective of the monetary authorities, the issuers of currency, that prioritize stability, it would be reasonable to recognize revenue in the statement of net assets/equity.

<Preliminary View – Chapter 4 (following paragraph 4.14)>

Definitions are as follows:

(a) Monetary gold is tangible gold held by monetary authorities as reserve assets.

(b) Tangible gold is physical gold that has a minimum purity of 995 parts per 1000.

Do you agree with the IPSASB's Preliminary View – Chapter 4?

[Our comment]

As explained in the paragraph 4.18, gold ETFs or gold forward/futures, which are financial instruments, would satisfy the definition of monetary gold in case of settlement in gold on demand, thereby making it necessary for you to consider the revised definition to encompass it as follow:

『Monetary gold is tangible gold or financial instruments which allow settlement in gold on demand, both of which are held by monetary authorities as reserve assets.』

<Specific Matters for Comment – Chapter 4-1 (following paragraph 4.50)>

(a) Should entities have the option to designate a measurement basis, based on their intentions in holding monetary gold assets (as noted in paragraphs 4.5-4.6)?

Please provide the reasons for your support for or against allowing an option to designate a measurement basis based on intentions.

[Our comment]

First, monetary gold is held as reserve assets that are readily available for balance of payments financing needs, according to the Preliminary View. Based on the definition, market value is more relevant which gives information about current value reflecting the economic environment prevailing at the reporting date. Historical costs address financial capacity as effective security in the past, as explained in the Conceptual Framework, but they have less relevance in recognizing them as assets available for use as they provide no information as of now. This led us to conclude that it would be more reasonable to measure them at market value as monetary assets under the current definition of the Preliminary View, regardless of the intention of holding them.

Secondly, to be held for an indeterminate period is exactly contradictory with to be held for its contribution to financial capacity. The latter does not necessarily mean that its holding period is definite. However, if it is possible to define gold assets separately as ones readily available for sale and otherwise, it would be possible to allow the option to designate a measurement basis based on intentions.

For one, some jurisdictions stipulate that a certain amount of gold would be reserved to ensure the fiscal stability of monetary authorities. There are also others that have experiences of maintaining a certain amount of gold all the time. The different measurement could be applied to the above. The measurement of the above could increase relevance in providing the information of holding gold assets comparing the previous financial statements.

<Specific Matters for Comment – Chapter 4-2 (following paragraph 4.50)>

(a) Please describe under what circumstances it would be appropriate to measure monetary gold assets at either:

i. Market value; or

ii. Historical cost?

Please provide reasons for your views, including the conceptual merits and weaknesses of each measurement basis; the extent to which each addresses the objectives of financial reporting; and how each provides useful information.

If you support measurement based on intentions as discussed in SMC 4-1, please indicate your views about an appropriate measurement basis for each intention for which monetary authorities may hold monetary gold, as discussed in paragraph 4.5 (i.e., intended to be held for its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets, or intended to be held for an indeterminate period of time).

[Our comment]

Monetary gold that has the nature of exchange value and value for money both makes it possible to be classified into monetary or investment assets, depending on the intention of holding them.

The Bank of Korea includes monetary gold assets to foreign exchange holdings as transactions concerning monetary gold assets have policy purpose as a means of external payments.

Accordingly, the Bank of Korea regards monetary gold as monetary assets, classifies them as highly liquid assets, and measures them at market value.

<Preliminary View – Chapter 5-1 (following paragraph 5.12)>

Definitions are as follows:

(a) The IMF Quota Subscription is the amount equal to the assigned quota, payable by the member on joining the IMF, and as adjusted subsequently.

(b) SDR Holdings are International reserve assets created by the IMF and allocated to members to supplement reserves.

(c) SDR Allocations are obligations which arise through IMF member's participation in the SDR Department and that are related to the allocation of SDR holdings.

Do you agree with the IPSASB's Preliminary View – Chapter 5-1?

[Our comment]

Yes. No additional comments.

<Preliminary View – Chapter 5-2 (following paragraph 5.33)>

The IPSASBs view is that:

(a) The IMF Quota Subscription satisfies the Conceptual Framework definition of an asset and should be recognized, with initial measurement at historical cost. Subsequent measurement may be at historical cost when the translated value of the quota subscription equals the cumulative resources contributed to the IMF, when it does not it should be measured at net selling price.

(b) SDR Holdings satisfy the Conceptual Framework definition of an asset and should be recognized, with measurement at market value.

(c) SDR allocations satisfy the Conceptual Framework definition of a liability and should be recognized, with measurement at market value.

Do you agree with the IPSASB's Preliminary View – Chapter 5-2?

[Our comment]

(a) It is appropriate to measure IMF Quota Subcription at historical cost initially, and translate it into national currency subsequently. Similarly, the Bank of Korea translates the amount of subscription into Korean won on the date of balance sheets.

(b.c) SDR holdings and SDR allocation are monetary items, and it is appropriate to translate them into national currency at year-end. Similarly, the Bank of Korea translates the two items into Korean won on the date of balance sheets.

As for now, it is fair to say that the SDR in itself is phantom money and no market exists, thereby making it impossible to record it with the gains and losses arising from currency translation and market value. The issue needs to be dealt with when the market is developed and phased into an open, orderly, active one.

We hope our comments would be useful for IPSASB's important step in determining the appropriate reporting for public sector financial instruments. Please feel free to contact global@kicpa.or.kr and sjkim@kipf.re.kr for further inquiries.

Thank you.