THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
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CS/PSC-SUB/mb

Ms Stephenie Fox
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By email: EDComments@ifac.org

22 July 2009

Dear Stephenie

IPSASB EXPOSURE DRAFTS ON FINANCIAL INSTRUMENTS STANDARDS:

- **ED 37: PRESENTATION**
- **ED 38: RECOGNITION AND MEASUREMENT**
- **ED 39: DISCLOSURE**

The Public Sector Committee of the Institute of Chartered Accountants of Scotland (ICAS) welcomes the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) exposure drafts on financial instruments. The Public Sector Committee is a broad based committee of ICAS members with representation from across the public services.

The Institute's Charter requires it to act primarily in the public interest, and our submissions are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Overall Comments

In the absence of a single conceptual framework underpinning a single set of financial reporting standards suitable for covering the private, public and not-for-profit sectors, we support the IPSASB's aim of developing a stable platform of International Public Sector Accounting Standards (IPSASs) which converge with International Financial Reporting Standards (IFRSs), departing only when there is a justifiable public sector specific reason for divergence.

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The adoption of financial instruments standards based on IFRS will contribute to the achievement of a stable platform and, while we agree that the exposure drafts correctly identify those issues which most affect the public sector, our overall view is that financial instruments standards are difficult to understand and difficult to implement. This is the case even for private sector entities engaged solely in exchange transactions. Therefore, we would welcome the preparation of more straightforward illustrative examples to accompany these standards which are more substantially tailored for the public sector, targeting those issues of greatest relevance and using the approach followed in preparing illustrative examples to accompany IPSAS 23 'Revenue from non-exchange transactions'.

In developing our response to the financial instruments exposure drafts, we considered whether it would be appropriate to postpone the adoption of financial instruments standards until the International Accounting Standards Board (IASB) had issued a revised IAS 39 on recognition and measurement. On balance, as a revised IAS 39 is not expected to be effective until periods commencing on or after 1 January 2012, we support the IPSASB's decision at its May 2009 meeting to press ahead with this financial instruments project.

Our responses to the specific matters for comment and other more detailed comments are set out in the appendix.

Please do not hesitate to contact me if you have any queries about this submission.

Yours sincerely

Christine Scott

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APPENDIX

ED 37: Presentation

Specific matter for comment 1
ED 37 allows entities to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to recognise and measure them in accordance with the international or national standard 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? Please state your reasons for either agreeing or disagreeing with this approach?

Response
We agree with this approach on the basis that we believe this is an appropriate interpretation of IAS 32 'Presentation' for the public sector.

Specific matter for comment 2
The transitional provisions to ED 37 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?

Response
We agree that comparative information should be provided when ED 37 is adopted for the first time by entities which previously applied IPSAS 15 'Disclosure and presentation' and by entities which adopt IPSASs for the first time. This is on the grounds that such an approach would be consistent with the requirements of IPSAS 3 'Accounting policies, changes in accounting estimates and errors' which requires the restatement of comparatives when there is a change in accounting policy.

ED 38: Recognition and Measurement

Specific matter for comment 1
Do you agree with the application guidance relating to the issuer of concessionary loans (AG83 to AG 89), in particular:

- *The requirement that any difference between the transaction price of the loan and fair value of the loan at initial recognition should be expensed;*
- *The distinction between a concessionary loan and a waiver of debt?*

If you do not agree with the application guidance please give your preferred alternative approach and state your reasons.

Response
We agree with the proposed treatment of concessionary loans on initial recognition on the grounds that the treatment is consistent with the requirements of IAS 39 and we agree with the material in the application guidance on the distinction between the loan and the waiver of debt.

AG 89 refers to using categories defined in paragraph 10. Paragraph 10 contains a fairly long list of definitions and we believe that a more precise reference to which definition is being referred to in relation to subsequent measurement would be helpful.

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The reference in AG 88 to paragraph IG54 of IPSAS 23 is incorrect. There is no IG54 in IPSAS 23 but there is an IG54 in ED 38 (page 126 of the marked up version) which deals with concessionary loans.

Specific matter for comment 2

Do you agree that the application guidance relating to financial guarantees provided for at 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'? Please state your reasons.

Response

We agree with the application guidance relating to financial guarantees provided at nil or nominal consideration. The material within ED 38 on the initial and subsequent measurement of financial guarantee contract appears consistent with the equivalent IASB standards.

Specific matter for comment 3

Do you agree with the transitional provisions in paragraphs 114 to 123? If you do not agree with these transitional provisions please indicate what further transitional provisions which are necessary or those transitional provisions which are unnecessary. Please state your reasons?

Response

Although complex, the transitional provisions appear reasonable. However, we also note that the transitional provisions do not refer to transitional provisions for the first time adoption of IPSASs. We recommend that the transitional provisions are amended to refer to the requirement for comparatives in this situation. This will ensure consistency on this point with ED 37.

ED 39: Disclosure

Specific matter for comment 1

The IPSASB has 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. Do you agree?

Response

We agree that there is no public sector specific reason for excluding any of the disclosures required by ED 39.

Other Comments on ED 39

Paragraph IN4 gives financial institutions as examples of public sector entities which hold complex financial instruments. However, we question whether financial institutions are a good example. We understand that financial institutions which are considered to be controlled by government are likely to be Government Business Enterprises and therefore not eligible to adopt IPSASs. It may be more appropriate to refer to the Exchequer or Ministry of Finance.

Paragraph 44 of ED 39 refers to transitional arrangements for the standard. We agree that it is reasonable to give public sector entities dispensation from preparing comparative information on the nature and extent of risks arising from financial instruments. However, rather than limit this to periods commencing before a certain date we would support extending this to all entities adopting this standard for the first time.

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