ACCOUNTANCY EUROPE.

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Chairman
IPSASB
IFAC

Submitted via website

Brussels, 21 December 2016

Subject: IPSASB Consultation Paper: Public Sector Specific Financial Instruments

Dear Sir or Madam,

Accountancy Europe is pleased to respond the IPSASB's public consultation on Public Sector Specific Financial Instruments.

Currency in Circulation

Accountancy Europe agrees that currency in circulation should be recognised as a liability when a binding or non-binding obligation exists. In rare circumstances where no such obligation exists, we believe that currency in circulation should be recognised as revenue in the Statement of Financial Performance.

Monetary Gold

Accountancy Europe agrees that it is appropriate to discuss the possibility of having a different measurement basis for monetary gold held for specific, short-term purposes compared to monetary gold held for longer term financial stability purposes.

IMF Quota Subscription and Special Drawing Rights (SDR)

Accountancy Europe agrees that the IMF Quota Subscription and SDR satisfy the definition of an asset set out in the Conceptual Framework and that they should be recognised as such. We also agree that SDR allocations should be recognised as a liability.

We also agree with the IPSASB's preliminary view on the measurement of these items, namely that:

- The quota subscription should be measured at cost at initial recognition and at selling price where cumulative resources do not equal the quota subscription

- The SDR holding and allocations should be measured at cost on initial recognition and subsequently at market value

Kind regards,
On behalf of Accountancy Europe,

Dr W. Edelfried Schneider
President

Olivier Boutellis-Taft
Chief Executive

About Accountancy Europe

Accountancy Europe (formally the European Federation of Accountants) unites 50 professional organisations from 37 countries that represent close to 1 million professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience from across Europe to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1 – DETAILED RESPONSE

(1) We are pleased to present below our responses to the Specific Matters for Comment.

Chapter 2 General definitions

Preliminary View – Chapter 2

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?

(2) We consider that the definitions of both 'monetary authority' and 'reserve assets' are consistent with the accepted meaning of these concepts and serve as a good basis for the rest of the CP.

Chapter 3-1 Currency in Circulation

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

Definition is as follows:
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?

(3) We agree with the above definition of 'currency in circulation' but note that the European System of Accounts (ESA) 2010 specifies that this should not include notes and coins not actually in circulation (i.e. that are held as stocks by a central bank) and commemorative coins not normally used to make payments even though they remain legal tender. This seems to be contrary to paragraph 4.1 (b) of the CP. It could be advantageous for these issues to be addressed in the Exposure Draft.

Chapter 3.2 Currency in Circulation

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

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 (as noted in paragraph 3.12), the IPSASB's view is the accounting treatment should be consistent for both, with the recognition of a liability when issued.

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

(4) In some jurisdictions notes and coins may be accounted for differently on the basis of both the legal instrument under which they are issued and because of the different frequency with which they must be replaced. However, we believe that notes and coins should follow the same accounting treatment as they both have fundamentally the same function and, in practice, coins can be easily exchanged for notes and vice versa.

(5) Accountancy Europe believes that when a legal obligation or non-legally binding obligation exists, the issuance of currency satisfies the definition and the recognition criteria of a liability (i.e. present obligation exists) as stipulated in the Conceptual Framework. We understand that the recognition of currency as a liability is already followed by many monetary authorities and, indeed, in the ESA 2010.

(6) In any event, it is unlikely that currency in circulation represents a material item in the accounts of many monetary authorities and even less so in whole of government accounts.

(7) Although not a specific matter of for comment, we believe that the measurement basis for currency in circulation in most circumstances will be face value, which is consistent with ESA 2010.

Chapter 3-1 Currency in Circulation

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.

(8) Accountancy Europe anticipates that a present obligation (i.e. a legal or constructive obligation is present) exists with respect to a substantial number of currency issuance operations, which would result in the recognition of a liability (i.e. approach 1). However, in rare cases, the absence of a legal or non-legally binding obligation would not fulfil the criteria for the recognition of a liability – in these circumstances we believe that this should result in the recognition of revenue (i.e. approach 2).

(9) We believe that revenue recognition in the Statement of Financial Performance is consistent with current IPSAS Standards. The Conceptual Framework does allow the possibility that revenue could be recognised directly in the statement net assets/equity but this approach is not used in the current set of IPSAS Standards.

(10) The weakness of the recognition of revenue in the Statement of Financial Performance is the impact it has on the operating results of the entity. This distorting effect would be avoided if revenue is directly recognised in the statement of net assets/ equity but this is not a treatment that we support from a conceptual basis and it would also not be consistent with current IPSASs.

Chapter 4 Monetary Gold

Preliminary View – Chapter 4 (following paragraph 4.14)

The key 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?

(11) We agree with the definition of monetary gold. In respect of the definition of tangible gold, Accountancy Europe does not have the necessary expertise to comment on gold purity. We do note, however, that this definition is consistent with the one in ESA 2010.

Chapter 4-1 Monetary Gold

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

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.

(12) We can certainly see the rationale for measuring gold held for short term specific purposes differently from that held as a reserve asset. Where monetary gold is held for trading purposes, such as use for international payments, to influence the money supply and/or to provide liquidity and stability to the economy it does seem logical to link the valuation to open market value whereas this would be too potentially volatile a measure for gold held as a long term asset to help confidence in the financial system.

Chapter 4-2 Monetary Gold

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

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).**?***

(13) It could be appropriate to measure monetary gold at market value where acquired for a specific short term (i.e. a period not exceeding 12 months) purposes. This would potentially lead to a more meaningful measurement where, for example, the gold is being held for short term speculation or to influence the money supply, as market value would more accurately represent that potential benefit of holding the gold. Market value should of course, be adjusted to reflect the potential impact that selling a large quantity of gold could have on the market price, where relevant.

(14) On the other hand, where the gold is held for longer term purposes as a reserve asset, using market value would probably result in too much volatility in the carrying value of the asset, thereby undermining to some extent the reason for which such reserve assets are held.

(15) ESA 2010 requires monetary gold to be measured at market price.

Chapter 5-1 IMF Quota Subscription and Special Drawing Rights

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

The 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?

(16) We agree with the definitions contained in Chapter 5-1.

Chapter 5-2 IMF Quota Subscription and Special Drawing Rights

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?

(17) We agree that the IMF Quota Subscription and Special Drawing Rights (SDR) satisfy the definition of an asset set out in the Conceptual Framework and should be recognised. We also agree that SDR allocations satisfy the Conceptual Framework's definition of a liability and should be recognised.

(18) We agree that cost is the appropriate basis for measurement of the Quota Subscription at initial measurement and when adjusting contributions or redemptions are required as a result of currency fluctuations. We also agree with the preliminary view that when the cumulative resources contributed do not equal the quota subscription the historical cost basis is no longer appropriate. In this context, we believe that selling price is the most appropriate basis for measurement.

(19) We also agree with the preliminary view that historical cost is an appropriate basis for the initial recognition of the SDR holdings and allocations but that subsequent measurement at market value is appropriate to better reflect the impact of currency fluctuations.

(20) According to ESA 2010, the value of the SDRs should be measured using the daily value from the IMF adjusted into the home currency using open market forex rates.