Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

CNOCP
Conseil de normalisation des comptes publics

LE PRÉSIDENT

5, place des vins de France
75573 PARIS Cedex 12
FRANCE
+ 33 1 53 44 22 80
michel.prada@finances.gouv.fr

Paris, January 23, 2017

Mr John Stanford
Technical director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
Toronto
Ontario M5V 3H2 CANADA

Re: Response to Consultation Paper *Public Sector Specific Financial Instruments*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Consultation Paper *Public Sector specific Financial Instruments* published in July 2016.

The CNoCP would like to thank the IPSAS Board for tackling specific public sector financial instruments that often reflect complex transactions between governments and central banks. As the standard-setter for the public sector in a jurisdiction that is a Member State of the European Union, the CNoCP would like to take the opportunity of that comment letter to bring to the IPSAS Board's attention some characteristics of the Eurosystem prior to getting into the questions in detail[1] : accounting policies applied by central banks in Europe are set out independently by the Governing Council of the European Central Bank (ECB), in a way that it considers is appropriate to the nature of central bank activity.

[1] See appendix 1

Based on that specific context as well as on extensive outreach activities with the Banque de France (BdF) and the Treasury in France, the CNoCP broadly agrees on the proposals set out in the consultation paper's preliminary views from a technical perspective.

Details of our response to the preliminary views and specific matters for comment are set out in appendix 2. Again, please beware that the comments provided in the following appendices are made within the very specific context of the Eurosystem presented in appendix 1.

Yours sincerely,

Michel Prada

APPENDIX 1

1. A brief overview of the European System of Central Banks

The **European System of Central Banks** (ESCB) comprises the European Central Bank (ECB) and the national central banks (NCBs) of all European Union (EU) Member States whether they have adopted the euro or not.

The **Eurosystem** comprises the ECB and the NCBs of those countries that have adopted the euro. The Eurosystem and the ESCB will co-exist as long as there are EU Member States outside the euro area.

The **euro area** consists of the EU countries that have adopted the euro. The ECB and the NCBs together perform the tasks they have been entrusted with.

The ECB Management report for the year ending 31 December 2015 mentions in paragraph 2 the key objectives and tasks of the ECB:

> The ECB's primary objective is to maintain price stability. Its main tasks, as described in the Statute of the ESCB, comprise the implementation of the monetary policy of the European Union, the conduct of foreign exchange operations, the management of the official foreign reserves of the euro area countries and the promotion of the smooth operation of payment systems.

2. Consequences on accounting policies applied by the Banque de France and the French Central government

The French "Monetary and Financial Code" sets out in article R144-6 the accounting principles that apply to the Banque de France's (BdF) financial statements. That same article states that the BdF should follow the accounting principles set out by the ECB on November the 11th, 2010 for all the transactions it operates within the ESCB. Those accounting principles apply more specifically to the management of the official foreign reserves and to notes in circulation.

The ECB accounting policies are as follows[2]:

> Accounting policies[3] - Form and presentation of the financial statements
>
> The financial statements of the ECB have been designed to present fairly the financial position of the ECB and the results of its operations. They have been drawn up in accordance with the following accounting policies[4], which the Governing Council of the ECB considers to be appropriate to the nature of central bank activity.

[2] See the ECB annual report for 2015

[3] The detailed accounting policies of the ECB are laid down in Decision ECB/2010/21 of 11 November 2010, OJ L 35, 9.2.2011, p. 1. This Decision was last amended by Decision ECB/2015/26 of 2 July 2015, OJ L 193, 21.7.2015, p. 134.

[4] These policies are consistent with the provisions of Article 26.4 of the Statute of the ESCB, which require a harmonised approach to the rules governing the accounting and financial reporting of Eurosystem operations.

We observe that some operations are accounted for within the Central government financial statements, e.g. coins in circulation and some transactions with the IMF. The financial statements for the Central government are established in accordance with the Central government accounting standards.

APPENDIX 2

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?

As outlined in appendix 1, in the EU, the monetary authority is the ECB acting together with the relevant NCBs. The ECB's main tasks are described in the Statute of the ESCB and comprise:

- the implementation of the monetary policy of the European Union;
- the conduct of foreign exchange operations;
- the management of the official foreign reserves of the euro area countries; and
- the promotion of the smooth operation of payment systems.

The above operations are those that are usually attributed to a national central bank. Nevertheless, the definition proposed for monetary authority can be transposed to the ESCB specific environment, as explained in paragraph 2.4 of the consultation paper.

As far as reserve assets are concerned, the definition provided covers the various uses of reserves; however, the notion of availability ("readily available") deserves practical comments concerning the acceptable level of liquidity for those assets.

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?

We are not sure an "individual economy" is a clear notion – "national or regional economy" would probably be more adapted. For the rest, we agree on the definition of currency in circulation as proposed in the consultation paper.

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, the IPSASB's view is that 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?

We observe that in our jurisdiction, notes and coins in circulation are recognised as a liability when issued by the monetary authority. The rationale for the liability is that the monetary authority holds commercial banks reserve assets as collateral for the amount of currency in circulation, in compliance with the legislation in force.

Because the process for the issuance of notes and coins may vary from one jurisdiction to another, we would suggest that the term *issuance* should be defined so as to ease the application of the requirements for the recognition of a liability and to increase comparability.

We remain however sceptical as to the reason to recognise a liability as set out in subparagraph (a) of paragraph 3.21: exchange of damaged currency for new currency has no quantitative effect on the recognition of a central bank's liability. The situation described in subparagraph (c) of the same paragraph seems remote since the end of mechanisms such as the gold standard exchange. Only the reason described in subparagraph (b) seems relevant to recognise a present obligation.

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

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:

(a) Statement of financial performance; or

(b) 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.

As stated in our response to the previous question, the practice in France (and in the Eurozone) is to recognise a liability for currency in circulation upon issuance. Recognising revenue for currency issued would be contrary to the way our monetary authority carries out its activities in the legal environment under which it operates.

However, assuming that no obligation exists, we would see no reason for revenue from the issuance of currency to be recognised directly to 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?

We agree with the proposed definitions that are currently in use in our jurisdiction.

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.

In France, monetary gold is a reserve asset recognised in the financial statements of the Banque de France (BdF). No distinction based on intention in holding monetary gold is made for the purpose of measuring the asset. It is measured at market value at year end, with unrealised losses recognised in profit or loss and unrealised gains recognised as a liability as required in ECB accounting policies[5].

Monetary gold is viewed as a foreign currency, rather than as a commodity, the applicable measurement basis at year end is therefore market value for consistency purposes.

The CNoCP is of the view that measuring monetary gold at market value at year end provides useful information irrespective of the intention in holding monetary gold assets.

---

[5] See the ECB annual report for 2015, p. A23:

Unrealised gains are not recognised as income but are transferred directly to a revaluation account (liability - see note 14 of the 2015 annual report).

Unrealised losses are taken to the Profit and Loss Account if, at the year-end, they exceed previous revaluation gains registered in the corresponding revaluation account. Such unrealised losses on any one security or currency or on gold are not netted against unrealised gains on other securities or currencies or gold.

However, by analogy with the new model for financial assets classification in IFRS 9, *Financial Instruments*, based on management intention, we acknowledge the need to allow for such an option for those jurisdictions for which it would make a difference.

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:

(a) Market value; or

(b) 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).

Consistent with our response to the above question, we observe that, the intention in holding monetary gold assets is not a driver for the measurement of monetary gold.

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?

We broadly agree with the definitions provided. However, we observe that IMF quota subscription is treated as a foreign currency in our jurisdiction, which in turn impacts the measurement basis retained for those instruments.

In addition, as far as IMF relationships are concerned, we understand that even within the context of the ESCB, those relationships remain based on bilateral agreements which differ from one country to another. It is therefore impossible to draw out fully harmonised accounting principles across IMF member countries. To illustrate that complexity, the IMF website describes the IMF lending process as follows:

> Upon request by a member country, IMF resources are usually made available under a lending "arrangement", which may, depending on the lending instrument used, specify the economic policies and measures a country has agreed to implement to resolve its balance of payments problem. The economic policy program underlying an arrangement is formulated by the country in consultation with the IMF [*…and is in most cases presented to the Fund's Executive Board in a " Letter of Intent" and is further detailed in the annexed "Memorandum of Understanding"*]. The IMF's various loan instruments are tailored to different types of balance of payments need (actual, prospective, or potential; short-term or medium-term) as well as the specific circumstances of its diverse membership[6].

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?

As mentioned for the monetary gold, IMF quota subscription is treated as foreign currency and is therefore measured at market value with unrealised losses recognised in profit or loss and gains recognised as a liability as required in ECB accounting policies.

We share the view that the net selling price is not significantly different from market value in the specific instance of quota subscription. We would therefore suggest that "net selling price" should be replaced with "market value" for the measurement of IMF quota subscription for practicability purposes.

[6] See http://www.imf.org/external/np/exr/facts/howlend.htm

As far as SDR holdings and allocations are concerned, we agree that the use of market value is appropriate, notwithstanding the fact that unrealised gains are recognised as a liability (see footnote 5 above).