



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

Mr Ian Carruthers  
Chair  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017 United States of America

Dear Mr Carruthers

**Consultation Paper *Public Sector Specific Financial Instruments***

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on their consultation paper *Public Sector Specific Financial Instruments*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC's response to the specific matters for comment is in the attachment to this letter. HoTARAC generally supports the development of a standard on public sector financial instruments, but notes that many central banks are outside the General Government Sector and may apply 'for profit' accounting standards.

HoTARAC also suggests aligning definitions with the Government Finance Statistics guidance cited in the attachment below.

If you have any queries regarding our comments, please contact Peter Gibson from the Australian Department of Finance on +61 2 6215 3551 or by email to [peter.gibson@finance.gov.au](mailto:peter.gibson@finance.gov.au).

Yours sincerely

David Nicol

Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

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## General Comments

HoTARAC notes that central banks are typically independent, outside the General Government Sector (GGS) and may apply International Financial Reporting Standards. Accordingly, this standard may not be directly applied and the use of IPSASB's conceptual framework for recognition and measurement may not be appropriate for entities applying IFRS financial instruments standards. For example, IPSASs differs from IFRS in separating Other Economic Flows in the statement of financial performance.

HoTARAC notes and agrees with IPSASB's commitment to consistency with Government Finance Statistics (GFS) where possible.

### 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?

(a) HoTARAC suggests 'central bank' also needs to be defined for the 'monetary authority' definition to be meaningful. HoTARAC suggests using the IMF GFS definition of 'central bank'.

HoTARAC further notes that 'monetary authority' is commonly understood to be the entity which controls the money supply. Is this what is meant by 'operations attributed to central bank'?

(b) HoTARAC suggests the wording from the definition of BPM6 paragraph 6.64 be used.

### 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?

(a) HoTARAC broadly agrees. In respect of the issue of legal tender, HoTARAC notes that in Australia notes are issued by the central bank, while coins are issued by a GGS entity.

### 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?

(a) HoTARAC agrees that notes and coins perform the same function. However, HoTARAC notes that the legal obligation to replace currency may differ between notes and coins and this may result in different accounting treatments.

Coins cost more to produce than notes and their cost may even be greater than face value. Additionally, coins have lesser value and are more difficult to keep track of when measuring the liability, particularly in developing countries. In these situations, either there is no liability or measurement of the liability is not practical.

Additionally, where coins are issued by an entity separate to the central bank, there may be no adjustment to financial institutions' reserve accounts on issue (paragraph 3.16); instead coins are directly purchased by the financial institution.

HoTARAC recommends that a more detailed conceptual basis for the existence of a present obligation be explored in paragraph 3.21-3.24. If a currency does not have the backing of the national government, it would not have any value beyond its intrinsic worth. HoTARAC suggest the CP be more precise in determining when there is a present obligation. For example, 3.21(c) refers to 'claims against the assets of the monetary authority for the currency in circulation'. Further explanation and examples would be useful here, as this could cover everything from a full gold standard to currency pegs.

**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.

- (a) HoTARAC suggests revenue be recognised in the Statement of Financial Performance. This would be the usual recognition principle for revenue.

**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?

**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.

- (a) HoTARAC suggests using the IMF GFSM2014 definition of monetary gold as 'gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as a reserve asset. It comprises gold bullion (including gold held in allocated gold accounts) and unallocated gold accounts with non-residents that give title to claim the delivery of gold'.

## Attachment: HoTARAC Response to Public Sector Specific Financial Instruments - Continued

- (b) HoTARAC suggests using the IMFS GFSM2014/BPM 6 definition of gold bullion as coins, ingots or bars with a purity of at least 995 parts per 1000.

HoTARAC considers gold should be measured at market value, subject to any existing forward sales agreement, regardless of the purpose for which it is held. HoTARAC notes that gold is a fungible, traded commodity and often fulfils the role of a currency (which is always held at current value). Measuring at historic cost is unlikely to provide meaningful information to users, particularly those making decisions about gold holdings.

### 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).

- (a) As per response above, HoTARAC would recommend gold is always measured at market value.

In respect of paragraph 4.43, HoTARAC suggests caution be exercised in using a particular accounting treatment to influence the payment of dividends by the central bank. HoTARAC suggests the role of the accounting setter should be to ensure transactions are accurately reported, rather than whether they should occur.

### 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?

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

HoTARAC agrees.

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?

(a) HoTARAC agrees.

(b) HoTARAC agrees.

(c) HoTARAC agrees.

