<u>COMMENTS ON IPSAS CONSULTATION PAPER ON PUBLIC SECTOR FINANCIAL INSTRUMENTS</u>

Prepared by the Statistics Directorate of the OECD, 14 December 2016.

<u>Preliminary view – Chapter 2</u>

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?

Yes, we agree with the preliminary view. The only comment we would like to make is that an addition could be made to the definition of monetary authorities to be more specific on the activities it usually concerns. See for instance paragraph 5.58 of the ESA 2010 which adds "Such operations include the issue of currency, maintenance and management of reserve assets and the operation of exchange stabilisation funds".

Preliminary View – Chapter 3-1

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?

Yes, we agree with the preliminary view. Please note that the 2008 SNA uses the term 'bank notes' instead of 'physical notes'. However, we assume that both terms cover the same. If this is not the case, it would be good to explain why and how it deviates.

Preliminary View – Chapter 3-2

(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?

Yes, we agree with the preliminary view. We are also of the opinion that the 'liability' approach is to be preferred to the 'revenue' approach and that monetary authorities should always assess the issuance of currency as a present obligation. This is particularly important to arrive at comparable data across countries. Moreover, as all other assets and liabilities are denominated in (domestic or foreign) currency, the non-recognition of currency as a liability would in our view indirectly imply that all other assets and liabilities would also not qualify as liabilities.

With regard to the valuation (discussed in paragraphs 3.31-3.33), we would like to mention that the 2008 SNA (paragraph 13.57) and the BPM6 (paragraph 11.53) prescribe using the nominal or face value of the currency.

Specific Matters for Comment – Chapter 3-1

(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.

Although we are not in favour of this second approach, we think option ii (i.e. statement of net assets/equity) is to be preferred if countries would apply this approach. We would not like to see the issuance of currency to be reflected in the operating results of the entity, one of the reasons being that the revenue is not attributable to the period covered by the financial statements.

Preliminary View – Chapter 4

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?

No, it seems that the proposed definition deviates from the one used in the 2008 SNA (and BPM6). Paragraph 11.45 of the 2008 SNA states that "monetary gold is 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". Paragraph 6.78 of BPM6 uses a similar formulation. It seems that the proposed IPSASB definition only covers the 'gold bullion' due to the specific reference to tangible gold, but that it does not include 'gold held in allocated gold accounts' and 'the unallocated gold accounts with non-residents that give title to claim the delivery of gold'. We would prefer if the definition could be amended to also include these gold accounts or to specify that these would also be covered under 'tangible gold'.

Specific Matters for Comment – Chapter 4-1

(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.

No, we think that for international comparability purposes, it is to be preferred to apply the same valuation across countries. In our view, this should be the market value, as it provides information on the actual value of the monetary gold stock. This would also be in line with 2008 SNA (paragraph 13.55) which states that "monetary gold is to be valued at the price established in organized markets or in bilateral arrangements between central banks". In case it is decided to allow two different types of valuation, we think that both valuations should be applied and published by all countries, so that users can use the value that is deemed most relevant for their analyses, still having the possibility of cross-country-comparisons.

Specific Matters for Comment – Chapter 4-2

(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.

As explained above, we would prefer the market value. As there is a regular market for gold, we think the market value would provide the best information on the actual value of the monetary gold stock. To have better insight in the role of acquisition/disposal of monetary gold versus holding gains and losses (which seems to be one of the main reasons in favour of the historical cost price), a breakdown of the change in stock of monetary gold could be pursued into these two types of changes.

Preliminary View – Chapter 5-1

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?

Yes, we agree with the preliminary view.

Preliminary View – Chapter 5-2

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?

Yes, we agree with the preliminary view. However, with regard to (a) we would prefer the net selling price to be used for all subsequent measures to ensure international comparability. In this regard, it is also not fully clear to us from the current explanation to what extent the net selling price would differ from the historical cost price in case "the translated value of the quota subscription equals the cumulative resources contributed to the IMF".