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5 January 2017.

The Chairman and Members,
International Public Sector Accounting Standards Board
Submitted via e-mail: "Submit a comment" link at its web-site.

Honourable Chairman and Members of the Board:

Re: Comments on Consultation Paper: Public Sector Specific Financial Instruments.

We are pleased to be a part of the consultative process. Thank you!

Our comments to the preliminary and specific responses requested are as follows-

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?

Response: We agree.

(a) The definition of monetary authorities may be refined to be:

"Monetary authority is the entity or entities notified and vested officially with the authority by a government to carry out operations usually attributed to a central bank."

Let us also be mindful that the power of creating currency is not limited to the central banks.

The requirement of official acknowledgement of status as monetary authority is to distinguish other entities with similar powers of creating money without being an official monetary authority, such as in cases where a company issues its shares capital or other financial instruments.

(b) What comprises reserve assets is not mentioned in the CP. The reason why we raise this issue is because we find our central bank – State Bank of Pakistan - reports foreign currency reserves held by the commercial banks owned by entities other than central government to be a part of foreign exchange reserves. The CP should provide guidance what comprises reserve assets; a definition is not sufficient.

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?

Response: We agree.

However, we would like the Board to consider the following refinement:

"Currency in circulation (physical) are valid legal tender comprises notes and coins with face values, issued by a monetary authority or on its behalf by its representative to which the economy belongs."

We have bought (physical) in parenthesis to create room for monetary authority to issue e-currency, digital and virtual currency in circulation. These should be accounted for separately.

The use of term "valid" may look obvious but its specific reference would disqualify value of currency notes or coins withdrawn.

The term legal tender should be prominent, hence our choice of placing it in the beginning.

Issued by the monetary authority or on its behalf….simplifies and is readable.

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?

Response: We do agree.

We wish the above question was worded more simply. We understand the purpose of question is to find out if the commentators agree with IPSAS's view that the issuance of currency satisfies the definition of a liability.

We were not able to follow most of the discussion (paragraph 3.11 to 3.30) preceding the question. It only turned our task as commentator to be difficult.

We were not able to figure out what non-legal obligation (paragraph 3.26) means. Same with the concept of 'valid expectation' (paragraph 3.27).

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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.

Response: We find the view that the currency in circulation which is no more a liability to qualifies as revenue as conceptually flawed.

Basically, an obligation which is no more there cannot be a revenue when it was not recorded earlier as a charge or expense. It's a liability being written off without a corresponding expense. In ordinary cases where we have a liability we have a corresponding expense, too.

Cancelled obligations of such nature should be accounted for in the statement of net assets/equity or more appropriately in a separate statement.

We see this event as a cancellation of obligation but not as resulting in revenue. It is clearly inappropriate to account for such obligation as 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?

Response: (a) We agree.

What if the gold reserves have been tendered as a temporary collateral?

(b) We do not agree with the minimum purity benchmark; as long as the prescribed bench mark mentioned in terms of pure gold can be attained without a disproportionate charge the equivalent weight of tangible gold appears to be a reasonable condition to account for gold reserves.

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.

Response: No. We remain skeptical of an accounting treatment solely based on intention. Your intention should not define the accounting treatment how gold reserve is valued. There should be a uniform treatment.

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).

Response: We find measurement of monetary gold asset on market value to be most appropriate as a financial instrument.

The market value of gold has been volatile and to suppress wild movements, the gold reserves by a central bank may also be stated on average market value during the year.

We prefer the valuation of monetary and non-monetary gold asset to be consisitent[1]. Monetary gold is a financial asset, nonmonetary physical gold is a good. Regardless whether gold assets are considered monetary gold or nonmonetary gold, under GFS guidance they are accounted for at market value.

Even better would be to value it at the market value and show the difference at the average market value by way of explanation. This will allow the user to draw its own conclusion.

[1] See A8 and footnote 44 of the ED.

The policy pursued by the State Bank of Pakistan for the year ended 30 June 2012 for the valuation of non-monetary gold is reproduced for reference[2].

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?

Response: Yes, we do agree.

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?

Response: Yes, we do agree.

End of comments.

Thank you.

Yours faithfully, Altaf Noor Ali Chartered Accountants.

Altaf Noor Ali, Chartered Accountant.

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[2] Gold is recorded at the prevailing rate at initial recognition. Subsequent to initial measurement, it is revalued under the State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulation No. 42(vi) at the closing market rate fixed by the London Bullion Market Association on the last working day of the year. Appreciation or diminution, if any, on revaluation is taken to equity under the head "unrealised appreciation on gold reserves". Appreciation / diminution realised on disposal of gold is taken to the profit and loss account. Unrealised appreciation / diminution on gold reserves held with the Reserve Bank of India is not recognised in the consolidated statement of changes in equity pending transfer of these assets to the Bank subject to final settlement between the Governments of Pakistan and India. Instead it is shown in other liabilities as provision for other doubtful assets.