STAFF QUESTIONS AND ANSWERS

August 2021

PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS UNDER IPSAS

This Questions & Answers (Q&A) publication is issued by the staff of the International Public Sector Accounting Standards Board® (IPSASB®) to provide additional information on accounting for certain public sector specific financial instrument transactions.

The objective of this document is to provide additional information and insight into the IPSASB's considerations in developing guidance to address public sector specific financial instruments (PSSFI).

This publication is not an authoritative pronouncement nor an interpretation of an authoritative IPSASB pronouncement. It does not amend or override the requirements of existing International Public Sector Accounting Standards™ (IPSAS™) or provide further implementation guidance. This Q&A is not exhaustive and is not a substitute for reading the full text of the IPSAS or RPG.

BACKGROUND

Public sector entities may hold monetary items as units of exchange to achieve policy objectives such as economic oversight through the issuance and maintenance of currency, management of reserve assets, and stabilization of exchange rates. However, the perceived lack of existing accounting guidance for these public sector monetary items has resulted in issues arising from diverse accounting outcomes.

Given the significance of monetary items in the public sector, the IPSASB has provided additional accounting guidance for specific public sector monetary items in its IPSAS by considering the service delivery objectives of public sector entities.

This additional guidance is particularly relevant as public sector entities consider the use and issuance of monetary items to address challenges posed by the ongoing global pandemic, such as public sector measures to manage elevated debt burdens. It is intended to help constituents consistently apply the standard in practice to public sector specific items. This will enable preparers to provide more relevant and comparable information for public sector management and decision-making purposes.

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Q1. What guidance do IPSAS provide for public sector specific financial instruments (PSSFI)?

IPSAS includes a suite of standards related to financial instruments. Specifically:

- IPSAS 41, *Financial Instruments*;
- IPSAS 29, *Financial Instruments: Recognition and Measurement*;
- IPSAS 28, *Financial Instruments: Presentation*; and
- IPSAS 30, *Financial Instruments: Disclosures*.

Certain public sector specific transactions meet the definition of a financial instrument, and the IPSASB provides additional public sector guidance in IPSAS as follows:

Public Sector Specific Transaction	Met the definition of a financial instrument?	IPSAS 41 Guidance[1]
Concessionary loans	Yes	• Application Guidance AG118–AG127 • Illustrative Examples 20 (IE153-155), 21 (IE156-IE161), and 22 (IE162-IE172) • Implementation Guidance G.1, G.2, G.5, and G.6
Currency issued as legal tender ("Currency in circulation")	Yes	• Implementation Guidance B.1.2.1
Equity instruments arising from non-exchange transactions	Yes	• Application Guidance AG128–AG130 • Illustrative Example 29 (IE198-202) • Implementation Guidance E.2.4, E.2.5, G.3, and G.4
Financial guarantees issued through a non-exchange transaction	Yes	• Application Guidance AG131–AG136 • Illustrative Example 23 (IE173–IE176)
International Monetary Fund (IMF) Special Drawing Rights (SDRs)	Yes	• Implementation Guidance B.1.2.2 and B.1.2.3
IMF quota subscriptions	Yes	• Illustrative Example 32 (IE211-IE214)
Sovereign debt restructurings	Yes	• Implementation Guidance I.1
Monetary gold	No	• Implementation Guidance B.1.1

The IPSASB's 2016 Consultation Paper (CP), *Public Sector Specific Financial Instruments* included examples of some public sector specific transactions to facilitate discussion with constituents. These examples are not included in IPSAS 41 as the key accounting principles are clear in the existing authoritative guidance of IPSAS 41. The examples can still be found in the following sections of the CP:

Public Sector Specific Transaction	Examples in the Consultation Paper
IMF quota subscriptions	Appendix F
IMF Special Drawing Rights (SDRs)	Appendix F
Currency in circulation	Section 3.3, Appendices B-C

[1] To review this IPSAS guidance, please visit our IPSASB webpage for the most recent version of the Handbook of International Public Sector Accounting Pronouncements.

Q2. How are IMF Special Drawing Rights accounted for under IPSAS?

IMF members receive Special Drawing Rights (SDR) holdings and allocations based on the relative size of their IMF quota subscription. SDR holdings are international reserve assets which supplement countries' official reserves and can be used to obtain foreign currency from other IMF members for balance of payments and liquidity needs. For example, IMF members may use SDR holdings to help address the economic impact of the COVID-19 pandemic. SDR holdings meet the definition of a financial asset. SDR allocations are obligations arising from the IMF member's participation in the SDR Department and are equal in size to its SDR holdings at the time they are granted. SDR allocations meet the definition of a financial liability. Thus, SDR holdings and SDR allocations should be accounted for by applying the accounting principles in IPSAS 41.

Q3. Why did the IPSASB address monetary gold?

Monetary gold is held by entities, such as central banks and governments, as a reserve asset separate from gold bullion. The IPSASB recognizes that holders of monetary gold may apply national or international financial reporting standards for the private sector, rather than IPSAS. However, these entities, and the monetary items they hold, remain important to the public sector as they may be controlled and consolidated into the financial accounts of the central government, regardless of whether they apply IPSAS. The IPSASB therefore decided to address monetary gold by providing explicit IPSAS guidance to support consolidated public sector reporting considerations and help entities consistently account for monetary gold.

Q4. How is monetary gold accounted for under IPSAS?

Monetary gold, which may be held by public sector entities for various purposes, does not meet the definition of a financial instrument per IPSAS 41.[2] To determine the appropriate accounting treatment for monetary gold, an entity should consider the facts and circumstances. An entity applies IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* to determine whether its monetary gold shares characteristics with, and be accounted for, like a financial instrument as defined in IPSAS 41, or if it may be more appropriately accounted for like another type of asset using another IPSAS.

While it is not required under IPSAS, an entity may choose to distinguish monetary gold separately from gold bullion as a separate line in its financial statements and accompanying notes. An entity may choose this distinction to communicate information about liquidity (as monetary gold is an overnight convertible asset), or to meet government finance statistics requirements, or for other informational purposes for financial statement users. However, these are presentation and disclosure considerations and do not impact the underlying accounting of monetary gold.

[2] Monetary gold is a physical asset that is readily convertible into cash, easily traded with willing counterparties, and often held for its contribution to financial capacity and to provide confidence in a monetary authority's financial strength and ability to carry out activities. Monetary gold is not a financial instrument as there is no contractual right to receive cash or another financial asset inherent in monetary gold. However, an entity may have financial instruments related to monetary gold, for example in cases where monetary gold is deposited for safe keeping with a bank in an allocated or unallocated gold account.

Q5. Why was the additional guidance focused on whether PSSFI are or are not within the scope of IPSAS 41?

The IPSASB added guidance on whether the PSSFI identified are within the scope of IPSAS 41 because:

- **Existing guidance on recognition and measurement is relevant.** Robust accounting principles exist in IPSAS 41 which provide sufficient guidance when recognizing and measuring instruments within the scope of the standard.
- **There is a benefit in clarifying whether items met the definition of, or share characteristics of, a financial instrument.** Additional guidance in the form of application guidance, implementation guidance, and illustrative examples are intended to help users apply existing IPSAS principles to determine if certain items meet the definitions per IPSAS 41 as public sector specific financial instruments.
- **Definitions of PSSFI are not necessary to determine whether a particular monetary item is in scope of the financial instruments guidance.** Entities generally do not have problems identifying public sector specific monetary items, but often have challenges in concluding whether these items are financial instruments from an accounting perspective. The analysis during the PSSFI project concluded that public sector specific items that meet the definition of a financial instrument should be accounted for in accordance with the relevant IPSAS principles. Additional guidance in IPSAS 41 is focused on areas where existing accounting guidance may be insufficient to assist users in determining when public sector specific monetary items are in scope.

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