



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item
6

DATE: August 26 2009
MEMO TO: Members, Technical Advisors and Observers of the IPSASB
FROM: Jeanine Poggiolini (SAASB) and John Stanford
SUBJECT: Financial Instruments

OBJECTIVE OF THIS SESSION

The objective of this session is to have an initial discussion of comments received on Exposure Draft (ED) 37, “Financial Instruments: Presentation”, ED 38, “Financial Instruments: Recognition and Measurement” and ED 39, “Financial Instruments: Disclosures” and to provide directions to Staff on issues raised.

ACTION REQUIRED

Members, Technical Advisors and Observers are asked to:

- **Consider** the comments received on ED 37, ED 38 and ED 39;
- **Consider** the issues raised in the agenda materials and **confirm** the Staff action or **provide** alternative directions;
- **Highlight** further issues that are not considered in the agenda materials and provide directions.

AGENDA MATERIAL

- 6.0 Memo from Staff
- 6.1 Section A – Analysis of comments received on the strategic approach adopted by the IPSASB
- 6.2 Section B – Analysis of comments received on ED 37, “Financial Instruments: Presentation”
- 6.3 Section C – Analysis of comments received on ED 38, “Financial Instruments: Recognition and Measurement”
- 6.4 Section D – Analysis of comments received on ED 39, “Financial Instruments: Disclosures”
- 6.5 Annexe A – Summary of respondents by geographical region, function, and linguistic attribute
- 6.6 Annexe B – Listing of respondents, including the geographical region, function and linguistic attribute
- 6.7 Copies of responses

BACKGROUND AND STRUCTURE OF MATERIAL

The IPSASB approved three EDs on financial instruments in February 2009. The EDs were issued in April 2009 with a consultation period ending on July 31 2009. The agenda materials for this meeting comprise an analysis of the respondents, their responses, and the identification of issues arising from the responses that require further action by the Board.

The material is structured into the following parts:

- Section A (Agenda Item 6.1) deals with responses received on the strategic approach adopted by the IPSASB in developing proposed IPSASs on financial instruments. It does not address substantive technical issues
- Sections B-D (Agenda Items 6.2-6.4) deals with the responses received on ED 37, ED 38 and ED 39.
- Annexes A and B (Agenda Item 6.5 and 6.6) provides a summary and listing of respondents in terms of function, geographical region and linguistic character (native/non-native English speakers).
- Agenda Item 6.7 provides the unedited responses. Any additional responses received will be distributed prior to the meeting with an additional memorandum if necessary.

Each section provides;

- A summarized narrative analysis and a tabular classification of the responses and key issues raised by respondents;
- A cut and paste of respondents' comments on each area and the Staff's proposed response; and
- Any key issues that require consideration by the Board.

STRATEGIC APPROACH FOR FI AND DEALING WITH FUTURE AMENDMENTS TO IAS 39

In April 2009, the IASB announced its intention to revise certain aspects of IAS 39. In particular, the IASB has considered that revisions are necessary to the classification and measurement of financial instruments, impairment modelling and hedge accounting. A number of respondents referred to IASB developments in their submissions.

The IASB issued an Exposure Draft in July 2009 proposing revised categories of financial instruments and related measurement bases. The consultation period for the Exposure Draft closes on September 14, with final amendments projected for publication towards the end of the year. The IASB has indicated that entities will be allowed to early adopt the amendments for financial periods ending December 31, 2009, and it is anticipated that adoption of the Standard will be mandatory by January 1, 2012.

The main changes from the existing requirements from IAS 39 are as follows:

- Two rather than four categories of financial instruments. Broadly the IASB has proposed two categories of financial instruments, i.e. financial instruments measured at fair value and financial instruments measured at amortized cost.
- Combined instruments that comprise an embedded derivative and a host contract that is a financial instrument are measured at fair value. The option to account for the embedded derivative separately from the host contract has been removed.
- Investments in equity instruments can only be measured at fair value. The alternative to measure investments in equity instruments at cost if fair value cannot be measured reliably has been eliminated.
- An entity may elect to recognise, on an instrument by instrument basis, the fair value gains and losses (and dividends) on investments in equity instruments in other comprehensive income. Previously, the gains and losses on all instruments classified as available-for-sale were recognised in comprehensive income.

In light of the responses received, Staff considers that the IPSASB should proceed with the development of IPSASs for issuance based on EDs 37-39. This is consistent with the IPSASB press release issued in May which acknowledged that the IASB was proposing changes and affirmed the IPSASB's commitment to continuing with the project nonetheless.

A number of respondents did raise concerns related to IASB proposals and public intentions to amend the suite of IFRSs dealing with financial instruments, especially IAS 39 (see Agenda Item 6.1). However, Staff notes that there are still uncertainties about the outcome of IASB proposals and intentions and that, in particular, the reaction of the United States Financial Accounting Standards Board (FASB) and the European Commission (EC) to IASB modifications remains very unclear.

The IPSASB's convergence programme has the objective of developing by December 31, 2009 a suite of IPSASs that reflect equivalent IFRSs as at December 31, 2008. It is important that the IPSASB delivers on this target. There are options to addressing the IASB's amendments that will allow this target to be met. For example, there has been only tentative consideration of an effective date for IPSASs based on EDs 37-39. If the effective date is 2012, this would give the IPSASB adequate time to address changes made by the IASB as a priority in 2010, and to consider the response from the United States and the European Commission. Amendments could be in place well before the effective date and this would permit the early adoption of simplified classification and measurement requirements for financial instruments.

Such an approach would ensure that entities do not have to adopt requirements that may be more complex and onerous than those in amended versions of IAS 32, IAS 39 and IFRS 7. The IPSASB's intention to consider amendments effected to IASB standards as a priority in 2010 could be communicated publicly through a further press release. This press release would indicate that the IPSASB will propose amendments to the IPSASs on Financial Instruments, based on major amendments to IFRSs, on a "fast track" basis in 2010.

Action Required

Members are asked to confirm that the IPSASB should proceed with the development of IPSASs for issuance based on EDs 37-39. Amendments to IAS 32, IAS 39 & IFRS 7 adopted by the IASB in late 2009 and early 2010 should be considered by the IPSASB as a priority in 2010, using a “fast track” approach if necessary. This approach should be communicated publicly through a further press release to be issued after this meeting.

SECTION A – ANALYSIS OF COMMENTS RECEIVED ON THE APPROACH ADOPTED BY THE IPSASB

Section A of the analysis of comments received on ED 37, “Financial Instruments: Presentation”, ED 38, “Financial Instruments: Recognition and Measurement” and ED 39, “Financial Instruments: Disclosures” considers respondents’ comments on the strategic approach adopted by the IPSASB in developing IPSASs on financial instruments. Section A does not deal with substantive technical issues.

This analysis is provided in two parts: Part I provides Staff’s classification of responses in terms of their agreement or disagreement with the IPSASB’s approach and summarizes key themes. Part II provides respondents’ detailed comments.

Summarised analysis of respondents’ views to the IPSASB’s approach

Background

In developing proposed IPSASs on financial instruments, the IPSASB’s approach was as follows:

- The proposed IPSASs were converged with the extant requirements of the equivalent IFRSs. ED 37 was based on IAS 32, “Financial Instruments: Presentation” as at December 31 2008, ED 38 was based on the final approved version of IAS 39 “Financial Instruments: Recognition and Measurement” as at December 31 2008, but included certain proposed amendments to IAS 39 related to the IASB’s ongoing annual improvements project, and ED 39 was based on IFRS 7, “Financial Instruments: Disclosures” as at the end of February 2009;
- IAS 32, 39 and IFRS 7 were modified to align the text with the existing suite of IPSASs; and
- Guidance was developed on three key areas identified by the Board, i.e. the distinction between contractual and non-contractual arrangements, concessionary loans and financial guarantees issued with nil or nominal consideration.

Analysis of Responses

Table 1 summarizes respondents’ views on the approach adopted by the IPSASB.

Of the 26 responses received, only 22 expressed a clear view on the approach adopted by the IPSASB.

Responses supportive of the approach adopted by the IPSASB

Overall, there was a positive response to the approach adopted by the IPSASB (15 out of 22, or 68% of the respondents agreed with the approach). However, 80% of those respondents (12 out of 15) noted their concern about the impending changes to IAS 39 and the impact this may have on the project. The key themes emerging from the comments on this issue relate to:

- (a) Whether the project should be delayed; and

- (b) If and/or how the IAS 39 amendments could be fast tracked by the IPSASB for inclusion in the proposed exposure drafts.

Many respondents debated whether or not the IPSASB's project should proceed. While most agreed that the project should proceed, several considered that the IPSASB should fast track the inclusion of the IAS 39 amendments into the proposed IPSASs. Two respondents proposed that the project should be delayed.

Some respondents proposed specific solutions for dealing with the fast tracking of the IAS 39 amendments. These are outlined below:

- Include the new classification and measurement approaches in the proposed IPSASs;
- Amend the "cut-off date" for ED 38 so that recent developments can be included in the proposed IPSAS;
- Adopt a policy of including revisions made by the IASB to IAS 32, 39 and IFRS 7 in the equivalent IPSASs soon after their publication with minimal amendment and a shortened exposure period. A consultation paper outlining this process could be issued by the IPSASB for comment; and
- Finalize and issue the existing exposure drafts as final standards, but make their implementation optional pending the revisions to IAS 39.

Apart from the concerns expressed about the impact that the changes to IAS 39 may have on the project, 6 of the 15, or 40% of the respondents noted that additional public sector issues needed to be addressed as part of a further project, including revisions to the guidance provided on concessionary loans and financial guarantees. It was also noted that more public sector specific illustrative examples could be included in the proposed IPSASs.

Responses not supportive of the approach adopted by the IPSASB

Based on comments received, there was a minority of respondents (7 out of 22 or 32%) that disagreed with the approach adopted by the IPSASB. The four key areas of disagreement are as follows:

- (a) The principles in the IFRSs are more appropriate for profit oriented entities and are not appropriate for the public sector;
- (b) The principles for the recognition and measurement of financial instruments in IAS 39 are flawed. Some of the concerns relate to the recognition of gains in net assets/equity and the use of fair value;
- (c) IAS 32, 39 and IFRS 7 are not a stable platform on which to base public sector standards, especially given the impending revisions to IAS 39. Some respondents expressed concern about the time and effort entities may take to implement the IPSASs on financial instruments, only for them to be revised shortly thereafter; and
- (d) Financial instruments should not be a priority project for the public sector. Projects on the relevance of fair value in non-exchange transactions, the power to

raise taxes or grant rights and entity combinations undertaken through non-exchange transactions should take preference.

Table 1 – Summary of respondents’ views on the approach adopted by the IPSASB

Respondent no.	Key	Total
002, 006	Agree	2
007, 014, 015, 017, 018	Agree, consideration of: <ul style="list-style-type: none"> • Timing of project in relation to IAS 39 revisions 	5
005, 008, 012, 013, 019, 022	Agree, consideration of: <ul style="list-style-type: none"> • Timing of project in relation to IAS 39 revisions; and • More public sector specific issues 	6
025, 026	Agree, but delay project	2
023	Disagree, IFRSs not appropriate for the public sector	1
003, 020, 021, 027	Disagree on the basis of: <ul style="list-style-type: none"> • Timing of project in relation to IAS 39 revisions; and • IFRSs not appropriate for the public sector 	4
001, 011	Disagree on the basis of: <ul style="list-style-type: none"> • Fundamentals of IAS 39; • Timing of project in relation to IAS 39 revisions; • IFRSs not appropriate for the public sector; and • Financial instruments is not a priority project for the Board 	2
		22

The following respondents did not express a view on the approach adopted by the IPSASB:

- J Maresca only expressed agreement with ED 37, the response to ED 39 did not express specific agreement or disagreement on the approach.
- Dutch Local Government Accounting Standards Board
- Japanese Institute of Certified Public Accountants
- United Nations
- Royal NIVRA

Part II - Analysis of comments received on the approach adopted by the IPSASB

Item	Comment	Analysis and response
ED 37, “Financial Instruments: Presentation”, ED 38, “Financial Instruments: Recognition and Measurement” and ED 39, “Financial Instruments: Disclosures”		
001	Comite des Normes de Comptabilité Publique	
	<p>We strongly disagree with the IPSAS Board decision to submit the three EDs concerning recognition and measurement, presentation and disclosures of financial instruments for comments. Our disagreement is based on the following considerations.</p> <p>1. We believe that the convergence strategy undertaken by IPSAS Board towards IFRS does not make sense in the current environment of accounting for financial instruments, given the work already underway by IASB and the corresponding schedule.</p> <p>Since the IASB has begun to work on the basics of accounting for financial instruments (their definition and measurement, their impairment models, the fair value in inactive markets, derecognition, hedging), we believe it is inappropriate at this time to transpose a standard whose fundamental issues could be changed in the coming months to the public sector.</p> <p>2. The French Authorities have several times demonstrated their disapproval over the IAS 39 standard concerning recognition and measurement of financial instruments, and we oppose the idea that these provisions be used to account for financial instruments in public sector entities.</p> <p>Apart from the fact that IAS 39 was only partially endorsed by Europe in 2004 because of underlying disagreement over provisions relating to hedging, correspondence from the Commission to IASB in October 2008 exposed a series of problematic issues and demanded they be dealt with as a priority. For this reason, we totally disagree to such a transposition.</p> <p>3. We do not think that accounting for financial instruments is a priority issue for the public sector.</p> <p>We have perfectly understood the strategy adopted by IPSAS Board to converge public sector accounting standards with IFRS by the end of 2009. We note that the</p>	<p>Disagreement with the approach adopted by the IPSASB. [Direction requested from the Board at September meeting]</p>

	<p>IFRS were primarily designed for the financial reporting of private and listed entities. In this context, we find regrettable that all of IPSAS Board's energy has been devoted to convergence, sometimes over trivial matters whereas at the same time the special features of the public sector have not been dealt with, for example concerning the power to grant rights and to tax, fair value measurement for non exchange transactions, entities combinations from non-exchange transactions, combinations.</p> <p>4. Standards concerning financial instruments with IFRS are extremely complex, particularly to address the sophisticated operations of financial institutions, and should therefore be adapted and simplified to address the operations of public sector operations.</p> <p>It is common knowledge that financial instruments are highly complex in their nature because the instruments themselves and their modes of management are very specialized. However, management of financial instruments in the public sector does not necessarily require the same degree of complexity and related accounting standards could thus be simplified. Moreover, this complexity is amplified by the divorce between the actual accounting rules and the functioning of the instruments and we therefore disagree with IAS 39 for these same reasons. Questions about the relevance of certain provisions of IAS 39 and its implementation difficulties for private companies could be repeated to the public sector.</p>	
<p>002</p>	<p>Swiss Public Sector Financial Reporting Advisory Committee</p>	
	<p>The Swiss comments are limited to a few relevant areas, because the size and complexity of the EDs did not permit a detailed discussion of the full content. However, SRS-CSPCP assumes that the underlying IAS/IFRS have proved to be useful and appropriate in the private sector. Therefore, they should be equally applicable also in the public sector.</p>	<p>Noted.</p>
<p>003</p>	<p>The OPEC Fund for International Development</p>	
	<p>In this age of globalisation, convergence of accounting standards is imperative for entities with similar operating and reporting objectives. We therefore commend your effort in pursuing this goal.</p> <p>We note that the exposure draft is drawn primarily from International Accounting Standard (IAS) 39. While IASB standards are designed for the private sector and government business entities, IPSAB standards are designed for public sector entities. The objectives of profit and not-for-profit entities are not necessarily the same.</p> <p>Since ED 38 is drawn primarily from IAS 39, it may also have inherited some of its</p>	<p>Noted. General disagreement about using IFRSs as a basis for the development of public sector standards, as well as the timing of the project and the impending IAS 39 revisions.</p>

	<p>weaknesses which are currently being addressed by the International Accounting Standards Board (IASB). You may be aware that IASB is in the process of fully revamping IAS 39 following wide criticisms and recommendations by the G20 forum. Also, in May 2009, IASB released an exposure draft on <i>Fair Value Measurement</i> with comments expected to be received by 28 September 2009. These will have some implications on ED 38 particularly in the classification and reclassification of financial instruments (ED 38 paragraphs 47-48, 53-63) and impairment recognition (ED 38 paragraphs 67-80).</p> <p>The current thinking is that financial instruments should be categorised into those at:</p> <p>(a) Amortised cost i.e. loans and those instruments having the features of loan; and</p> <p>(b) Fair value i.e. other instruments not at amortised cost.</p> <p>Also, the current thinking on impairment is in favour of the expected loss model as opposed to the incurred loss model in ED 38.</p>	<p>[Direction requested from the Board at September meeting]</p>
<p>004</p>	<p>Dr J Maresca</p>	
	<p>Thank you for the opportunity to critique this issuance. The Standard deals with the requisite disclosures for financial instruments. Generally, there is agreement with the following provisos noted:.... (noted under Part C general comments).</p>	<p>Noted.</p>
<p>005</p>	<p>Fédération des Experts Comptables Européens</p>	
	<p>(2) We strongly support IPSASB’s project to develop a suite of IFRS converged IPSASs on relevant issues, closely reflecting IFRS where this is possible, and providing interpretation or additional guidance where this is necessary.</p> <p>Comments on the content of the Exposure Drafts</p> <p>(3) The EDs are based on IAS 32, IAS 39 and IFRS 7 modified using the IPSASB’s ‘public sectorization’ approach. They also include similarly modified IFRIC material in appendices, to bring together a coherent body of guidance on financial instruments. In addition to the ‘public sectorization’ of terminology and examples, the Exposure Drafts extend the scope of the proposed standards to encompass financial instruments which arise under contractual arrangements with a non-exchange element.</p> <p>(4) We agree that it is appropriate to extend the scope in this way. We also agree with the Board’s analysis which notes that there are wider classes of arrangement with characteristics similar to financial instruments in the public sector which are not covered. We agree with the decision of the Board to defer consideration of these in</p>	<p>Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the impending revisions to IAS 39.</p> <p>[Direction required from the Board at September meeting]</p>

order to progress the IFRS convergence agenda in a timely manner.

(5) In general we agree that the ‘public sectorization’ is helpful, and the additional material is appropriate and should be reflected in the IPSAS as proposed. Answers to the specific questions in the exposure drafts are attached.

Comments on timing, having particular regard to Financial Instruments

(6) As noted above, we strongly support the Board’s project to produce as complete as possible a set of IPSASs by 31 December 2009, having regard to related IFRS as at 31 December 2008 insofar as they are relevant. This will form a high quality and credible basis from which to develop further standards and guidance, including public sector specific issues on which IFRS is silent.

(7) Having said this, the position of reporting standards on financial instruments at the present time is very fluid. In the light of the financial crisis the IASB and some other national standard setters have been accelerating projects to improve this complex area of financial reporting. A number of fast-track amendments have already been made to existing standards, and in May 2009 the IASB announced its intention to substantially revise and simplify financial instruments reporting, including developing a new classification and measurement standard which will have effect from 2009 year ends, and the issuance of consultation material on impairment of financial assets and on hedging before the end of 2009.

(8) In the light of the above, it is natural to consider whether for the specific case of financial instruments, it would be better to delay development of related IPSAS guidance. The body of guidance which has been ‘public sectorized’ in the Exposure Draft is complex and detailed, and it might be advantageous to wait until the IASB has completed its development and deliberations, and produce a public sectorized version of revised standards when these have been issued.

(9) We note that the IPSASB considered these issues at its Washington meeting in May 2009, and issued a press release reaffirming the Board’s commitment to the production of a comprehensive set of standards and removing reliance on a hierarchy of standards which includes standards which are not designed for application in the public sector. The Board decided to continue its full consultation on exposure drafts relating to Financial Instruments, and will consider any changes ultimately adopted by the IASB in due course.

(10) On balance, we agree with the IPSASB position, given that development and implementation of a revised IPSAS would require a further round of ‘public sectorization’, Board approval, and subsequent due process. We were glad to see that the IPSASB press release also highlights the need to consider actions to be taken to reflect revised IFRS guidance. If the Board achieves its IFRS convergence target by

	<p>the end of 2009, it will then be well placed to begin ‘maintenance’ of IPSAS which are substantially based on IFRS, having regard to recent amendments which are relevant to public sector financial reporting. We suggest that the Board should attach particular priority to reviewing the financial instruments IPSASs.</p>	
006	<p>Public Sector Accounting Board</p> <p>PSAB supports the issue of measurement and recognition requirements for financial instruments and the IPSASB’s efforts to update existing disclosure requirements.</p> <p>Financial instrument exposure draft approved by PSAB</p> <p>At its June meeting, PSAB approved an exposure draft that similarly addresses the recognition, measurement, presentation and disclosure issues associated with financial instruments. Two measurement categories are proposed: fair value and cost or amortized cost. The requirement to measure financial instruments at fair value subsequent to initial recognition would be limited to derivatives and equity instruments that are portfolio investments quoted in an active market. Unless the fair value option is exercised, all other items within the scope of the standard would be measured at cost or amortized cost.</p> <p>Gains and losses that arise on the remeasurement of items in the fair value category would be distinguished from all other revenues and expenses by dividing the statement of operations into two components. As such, users would be provided with a financial statement measure of surplus/deficit excluding remeasurement gains and losses. Budget-to-actual comparisons would apply only to the component that excludes the fair value remeasurements required by the standard. PSAB also proposes to retire the use of hedge accounting and require all fair value remeasurements be reported within the statement of operations (in its second component).</p>	<p>Overall agreement with the approach adopted by the IPSASB, although local strategy on financial instruments differs.</p> <p>[Direction requested from the Board at September meeting]</p>
007	<p>Financial Reporting Standards Board (New Zealand)</p> <p>The FRSB commends the IPSASB on issuing these EDs and considers that they are a critical component of the IPSASB’s convergence programme, particularly as governments consider the impact of recent credit crisis interventions on their financial statements.</p> <p>We note that IPSASB has justified proposed departures from the underlying IASB standard by reference to the Rules of the Road’. We support this approach and welcome the fact that marked-up copies of the proposed EDs have been made available.</p>	<p>Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the impending revisions to IAS 39.</p> <p>[Direction requested from the Board at September meeting]</p>

	<p>Although the FRSB understands that IPSASB is aiming to converge with IFRSs as at 31 December 2008 and that there are good reasons for selecting a single cut-off date, we suggest that the IPSASB consider whether it would be necessary or beneficial to incorporate any amendments to IFRSs issued after this date into the IPSASB's converged standards because these amendments are either fundamental to the application of the standards or significantly improve the standards. We also urge the IPSASB to continue to monitor the IASB's project to revise IAS 39 <i>Financial Instruments: Recognition and Measurement</i> with a view to adopting the revised standard as soon as possible.</p>	
008	Institute of Chartered Accountants of Scotland	
	<p>In the absence of a single conceptual framework underpinning a single set of financial reporting standards suitable for covering the private, public and not-for-profit sectors, we support the IPSASB's aim of developing a stable platform of International Public Sector Accounting Standards (IPSASs) which converge with International Financial Reporting Standards (IFRSs), departing only when there is a justifiable public sector specific reason for divergence.</p> <p>The adoption of financial instruments standards based on IFRS will contribute to the achievement of a stable platform and, while we agree that the exposure drafts correctly identify those issues which most affect the public sector, our overall view is that financial instruments standards are difficult to understand and difficult to implement. This is the case even for private sector entities engaged solely in exchange transactions. Therefore, we would welcome the preparation of more straightforward illustrative examples to accompany these standards which are more substantially tailored for the public sector, targeting those issues of greatest relevance and using the approach followed in preparing illustrative examples to accompany IPSAS 23 'Revenue from non-exchange transactions'.</p> <p>In developing our response to the financial instruments exposure drafts, we considered whether it would be appropriate to postpone the adoption of financial instruments standards until the International Accounting Standards Board (IASB) had issued a revised IAS 39 on recognition and measurement. On balance, as a revised IAS 39 is not expected to be effective until periods commencing on or after 1 January 2012, we support the IPSASB's decision at its May 2009 meeting to press ahead with this financial instruments project.</p>	<p>Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the impending revisions to IAS 39. Note the request to prepare additional illustrative examples when considering the editorial review of the ED.</p> <p>[Direction requested from the Board at September meeting]</p>
009	Dutch Local Government Accounting Standards Board (Commissie BVV)	
	No comment on approach.	Noted.

010	Dr J Maresca	
	No comment on approach.	Noted.
011	Cour des Comptes France	
	<p>I THE THREE EDS ARE NOT PRIORITY SUBJECTS AND ARE NOT DESIGNED TO PUBLIC SECTOR ENTITIES</p> <p>A. IAS 32, IAS 39 and IFRS 7 IN A RE-SHAPING PROCESS</p> <p>In the three EDs’ presentation, the IPSAS Board states that they are based on the most up-to-date version of the IFRSs from which they are inspired (December 2008 or February 2009).</p> <p>However, IAS 32, IAS 39 and IFRS 7 are now being completely re-shaped by the IASB. Concerning the content, IAS 39’s structure seems to be the heart of the current debate that could lead to a significant modification of that standard in the coming months. Consequently, in that case, it should be waited for a real stabilization of the financial instruments’ IASs-IFRSs, before any discussion on a possible transposition of these standards to public sector entities.</p> <p>B. THE IASs-IFRSs DEALING WITH FINANCIAL INSTRUMENTS ARE MAINLY DEDICATED TO BANKS</p> <p>In practice, IAS 32, IAS 39 and IFRS 7 essentially concern banks.</p> <p>Those accounting standards are placed in the context of the prudential standards that apply to banks (like the “Basel. II” framework).</p> <p>The equivalent of prudential standards generally does not exist for the public sector. The absence of the prudence principle in the IPSASs conceptual framework (in its answers to the IPSAS Board’s Consultation Paper on the Conceptual Framework, the Cour des Comptes had expressed a negative view on the absence of the prudence principle) raises a principle question to which no answer is made in the EDs: is the volatility of the fair value measurement method meaningful for Governments, as no prudential standard would balance it?</p> <p>C. THE REFLEXION ON THE ADAPTATION OF THOSE STANDARDS TO THE PUBLIC SECTOR HAS NOT COME TO AN END</p> <p>The measurement of financial instruments at fair value is neither positive nor negative in itself. It should be discussed in the context of the objectives followed by the accounting standards, but the IPSAS Board does not bring any clarification</p>	<p>Overall disagreement with approach adopted by the IPSASB. [Direction requested from the Board at September meeting]</p> <p>While some of the detailed Application Guidance is primarily focused on banks the scope sections of the IFRSs make clear that the scope extends beyond the banking sector.</p>

	<p>on those objectives.</p> <p>In particular, by pushing the fair value method, the three EDs anticipate on the coming part of the conceptual framework dealing with measurement methods.</p> <p>Public sector entities, and particularly Governments, generally operate in sectors where market value is meaningless as those activities are not managed through markets.</p> <p>It seems very urgent to think about the followed objectives, by reassessing the priority of the IPSAS conceptual framework and by delaying the adoption of those EDs, while adapting them to public sector specificities.</p> <p>II.TWO PARTICULAR PROVISIONS ARE HOWEVER POSITIVE</p> <p>However, the French Cour des Comptes notes two positive points in these EDs (see the “answers to specific matters to comment” section, Appendix). On the one hand, the effective interest method that would apply to loans granted by Governments, and the requirement to recognize an expense for any concessionary loan, would improve the relevance of the financial statements. On the other hand, the presentation and valuation of guarantees may, in some cases, be carried out in accordance with the EDs’ provisions. Those provisions should however be optional, as they can not apply to certain public activities that can not be managed through a market (guarantees granted as an insurer of last resort, for natural disasters for example).</p> <p>Conclusion For all the reasons that are raised above (see I above), and despite the two particular provisions that are assessed to be positive (see II above), it does not seem to be desirable to adopt these EDs in their present version, as they do not seem to be suited for the operations of public sector entities. Moreover, the recognition of financial instruments appear to have less priority in the public sector than dealing with essential subjects like the relevance of the fair value in the non-exchange transactions context, or the accounting treatment of certain public sector specificities, among them primarily the power to raise taxes or the power to grant rights.</p>	<p>Noted. Specific comments have been addressed as part of the analysis of ED 38.</p>
012	Accounting Standards Board UK	
	2. We believe that, in order for IPSASs to form a credible foundation for financial reporting by the public sector, they must contain standards on financial instruments	Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the

	<p>that are comprehensive, contain appropriate guidance on the fundamental issues that arise in the public sector, and, except where modifications are appropriate to deal with the public sector context, are converged with IFRSs. We understand that IPSASB shares that view.</p> <p>3. As you know, IASB is currently conducting a major review of IAS 39 and this is expected to lead to substantial revisions within the next few months. It is essential that, subject to a careful analysis of public sector specific issues, the IPSASs on financial instruments will be converged as promptly as is practicable with the revised IASB standards. However, given the inevitable lead time between the issue of revised standards and the issue of IPSASs based on them, IPSASB has decided that the issue of standards based on current IFRSs will provide certainty to those currently applying IPSASs (and therefore, by virtue of the hierarchy, current IFRSs). It will also, in IPSASB’s view, when taken together with other proposals for convergence, demonstrate the Board’s commitment to convergence on a comprehensive basis. IPSASB is therefore proposing to issue these standards as a step towards the objective of comprehensive, up-to-date standards for the public sector rather than as an end in itself. Our comments on the exposure drafts are made in this context.</p> <p>4. We would emphasise the importance of IPSASB working towards, and to be understood to be working towards, the ultimate objective. It is therefore important that IPSASB continues to monitor developments in IFRS and is willing to adapt its strategy to developments as they arise and does so in a timely manner.</p> <p>5. One of the consequences of IPSASB’s strategy is that fundamental and challenging public sector issues are not addressed in the current exposure drafts. We welcome IPSASB’s commitment to deal with these in its future work. As is explained in the Appendix to this letter, we consider that future work will also be required on concessionary loans and financial guarantees (two public sector issues that are addressed in the exposure drafts), although we consider the proposals may be adequate as an interim measure.</p>	<p>impending revisions to IAS 39, as well as the inclusion of additional material in the IPSASs on public sector specific issues.</p> <p>[Direction requested from the Board at September meeting]</p>
<p>013</p>	<p>Accounting Standards Board South Africa</p>	
	<p>While we support the development of public sector standards on financial instruments, we have reservations about the approach adopted by the IPSASB. These concerns are outlined below, and address both the short and long term strategy of the IPSASB.</p> <p>While we appreciate that the IPSASB needs to provide urgent guidance to its constituents in the short term, we have reservations about the proposed timing of this project in relation to the IASB’s recent proposals to simplify IAS 39. The IASB published proposed simplifications to the classification and measurement of financial</p>	<p>Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the impending revisions to IAS 39, as well as the inclusion of additional material in the IPSASs on public sector specific issues.</p> <p>[Direction requested from the Board at September meeting]</p>

instruments in an exposure draft issued on the 14th of July. The IASB intends that these amendments be approved for application by entities with December 2009 year ends, with mandatory adoption tentatively expected by 2012.

If the IPSASB issues its financial instruments standards at its December 2009 meeting, it will coincide to some extent with the issue of the final revisions to IAS 39. If the IPSASB issues its standards, this will mean that entities that apply IPSASs will be required to apply an IPSAS that is more complex than the equivalent private sector standard.

If the IPSASs did not exist, entities would, through use of the hierarchy, be able to use the revised IAS 39 to develop an accounting policy for its financial instruments.

We do not believe that the IPSASB should postpone its project, but propose that a strategy or policy be developed as to how the proposed changes to IAS 39 can be addressed and included in the equivalent IPSASs as soon as possible after their issue by the IASB. As the financial instruments project is a convergence project, the IPSASB could adopt a policy of including final IASB amendments in its standards with minimal amendment and a shortened exposure period. A consultation paper outlining this policy could be issued for public comment and constituents asked for their input prior to this policy being adopted by the IPSASB prior to its December 2009 meeting.

In terms of the IPSASB's longer term strategy on financial instruments, we support the proposal outlined in the basis for conclusions that additional public sector specific issues should be addressed. We would however propose that the IPSASB consider reducing the complexity of the extant requirements of IAS 32, 39 and IFRS 7 for the public sector. IAS 32, 39 and IFRS 7 in their current form may be a barrier to governments and entities adopting IPSASs in the longer term.

Based on our own local circumstances, additional simplification may be appropriate in the following areas:

- Definitions of financial assets and financial liabilities (settlement of transactions in an entity's own equity instruments).
- Puttable instruments and shares in co-operative entities.
- Derecognition of financial assets.
- Treatment of financial guarantees and loan commitments.
- Disclosures.

014	European Commission	
	<p>As a general comment we appreciate that the IPSASB is currently developing these Accounting Standards as this will form a high quality and credible basis for accounting for financial instruments in the public sector. In times of economic crisis with the associated financial assistance of governments, the accounting treatment of financial instruments is a key issue within the public sector. We therefore encourage IPSASB to finalise this project in the near future and to publish the final standards as soon as possible.</p> <p>As the IASB is currently in the course of substantially revising and simplifying the reporting on financial instruments, including developing a new classification and measurement standard which will probably have effect from 2009, we urge IPSASB to take as soon as possible the finalised IFRS developments into account. One should certainly avoid the situation where one has more complex standards on financial instruments in the public sector than those in the private sector. Therefore, it would probably be better to already include the new classification and measurement provisions as currently proposed and to be finalised later this year.</p>	<p>Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the impending revisions to IAS 39.</p> <p>[Direction requested from the Board at September meeting]</p>
015	HOTARAC	
	<p>HoTARAC commends the IPSASB's efforts to issue, within its planned deadline, the suite of financial instrument Standards that converge with equivalent Standards issued by the International Accounting Standards Board as at 31 December 2008. HoTARAC considers that these updates are necessary to bring the current IPSASB Standards into line with International Accounting Standards and to provide additional guidance on complex accounting issues facing the public sector.</p> <p>As the IPSASB is aware, the IASB is revising its financial instruments Standards. It could be argued that IPSASB should delay introducing its financial instruments Standards to take account of the IASB changes.</p> <p>HoTARAC is strongly of the view that a delay is not warranted because:</p> <ul style="list-style-type: none"> • at the time of the global financial crisis, it is important for public policy that governments apply comprehensive financial instruments Standards (including disclosure); and • the revised IASB Standards may not be applicable for some time. <p>For this reason, while there are aspects of the IASB's financial instruments Standards</p>	<p>Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the impending revisions to IAS 39.</p> <p>[Direction requested from the Board at September meeting]</p>

	<p>that could be improved, HoTARAC supports the IPSASB proposals set out in the Exposure Drafts.</p> <p>In particular, HoTARAC supports:</p> <ul style="list-style-type: none"> • the application guidance provided to issuers of concessional loans. This guidance is consistent with how the Australian public sector accounts for these loans and is in line with the Government Finance Statistics system; • the distinction between a concessional loan and a waiver of debt; • the application guidance relating to financial guarantees provided for nil or nominal consideration (but noting that this is different to statutory guarantees); and • the additional disclosure requirements set out in ED 39. <p>HoTARAC believes that the clarity in a number of areas could be improved, as identified in the attachments to this letter. HoTARAC notes that it has largely confined its comments to the additions and amendments proposed by IPSASB, and with minor exceptions has not commented on unaltered elements of the underlying IASB Standards. Consequently, HoTARAC's comments should not be interpreted as a wholesale endorsement of the underlying IASB Standards.</p>	<p>Noted. These have been addressed as part of the analysis of EDs 37 to 39.</p> <p>Noted.</p>
016	Japanese Institute of Certified Public Accountants	
	No specific comment on approach.	Noted.
017	New South Wales Treasury	
	<p>We appreciate that the IPSASB is committed to achieving updated IPSASs on financial instruments by December 31, 2009 that will be substantially converged with IFRSs approved as of December 31, 2008. The current global economic crisis has emphasised the importance of this convergence.</p> <p>Now that the International Accounting Standards Board (IASB) is also revising its financial instruments standards in response to the global financial crisis, we hope that the IPSASB updated standards will be quickly amended to align with the latest versions of the relevant IASB standards. Otherwise, the IPSASB financial instruments standards will lose validity.</p>	<p>Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the impending revisions to IAS 39.</p> <p>[Direction requested from the Board at September meeting]</p>

018	Association of Chartered Accountants (ACCA)	
	<p>Whilst ACCA welcomes the opportunity to comment, we understand that the International Accounting Board (IASB) and the Financial Accounting Standards Board (FASB) are accelerating their project on redrafting standards on financial instruments International Accounting Standards (IAS) 32 and 39, which are likely to have some major changes such as reducing the measurement alternatives and addressing the issues of transfers out of fair value. The review is likely to come in the third of fourth quarter of this year.</p> <p>We understand that IAS 39 is a rapidly changing picture and are aware of the risks associated with not having the appropriate disclosures in place. We are supportive of the proposed changes but continue to be concerned about what appears to be a lack of co-ordination between IASB and IFAC which inevitably will result in increased costs to stakeholders in terms of understanding and applying the standards in the future.</p>	<p>Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the impending revisions to IAS 39.</p> <p>[Direction requested from the Board at September meeting]</p>
019	Audit Commission UK	
	<p>We support the continuing progress made by the Board to align IPSASs wherever possible to current IFRSs and ensure that IPSASs contain sufficient guidance on public sector specific issues.</p> <p>The Exposure Drafts contain guidance on concessionary loans and financial guarantees at nil or nominal consideration and we broadly agree with this guidance subject to detailed comments in the annex to this letter.</p> <p>We note that the Board acknowledges that further work is required in the future to address other issues in the public sector relating to financial instruments. We support the move to introduce exposure drafts that will substantially align IPSASs to IFRSs with modifications for the key issues in the public sector as an interim measure, but would encourage further work to produce comprehensive standards that covers all public sector specific issues in the near future.</p> <p>We also note that the Board acknowledges the work currently underway by the IASB to modify IAS39 and would encourage future work to ensure IPSASs are aligned in due course with any revisions to this and other international standards.</p>	<p>Overall agreement with the approach adopted by the IPSASB, with concerns noted about the timing of the project and the impending revisions to IAS 39.</p> <p>[Direction requested from the Board at September meeting]</p>
020	Treasury Board of Canada	
	<p>We would like to ensure that the International Public Sector Accounting Standards Board (IPSASB) is aware of our concerns related to adopting an accounting standard for the public sector that mirrors that of the IASB for financial instruments. IPSASB</p>	<p>Staff notes that many of these comments relate to convergence generally and that some are currently being considered in the Conceptual Framework project i.e., primacy of balance sheet</p>

was initially created to address the unique characteristics of governments and the differing objectives of financial reporting for government. The value and relevance of IPSASB will be diminished if its normal practice is to copy private sector standards with only minimal amendments to address public sector needs.

In Canada, the Public Sector Accounting Board (PSAB) has been working on its financial instruments project for approximately five years and will be releasing its exposure draft for comment shortly. There were two Statements of Position that were released for comment to the public sector community. As a result of significant comments that were made by preparers and auditors of financial statements, the final result is a standard that has deviated from the private sector standards and is tailored to the information needs required for public sector financial statement users and preparers. It would be preferable if IPSASB took such an approach in the development of standards.

Governments have the ability to tax to discharge obligations which is fundamentally different from a private sector entity that must ensure that it can sell its goods or services at an adequate price to discharge its liabilities or be able to raise capital. Thus for the private sector, the current focus on the Balance Sheet is necessary for investors to assess the value of an entity. However, this can have the effect of introducing more volatility into the reported net income. From a public sector perspective, users look to see how the Government has spent the revenues it has earned; thus the focus is on the Statement of Operations. By introducing volatility into the Statement of Operations to achieve an objective of a more robust Statement of Financial Position takes away from the relevance and usefulness of the financial statements.

Many users of financial statements focus on the annual surplus and do not look at its components in assessing if the Government has been prudent in its spending and taxing. Thus the addition of unrealized gains or losses will only lead to more confusion on the part of users as to the Government's financial position. For example, the following was in the press release from the Canadian Taxpayers Federation on the release of the Federal Government's 2006-2007 results:

“A \$14.2B surplus means Ottawa is over-taxing Canadians by \$14.2B. There is no excuse left, except political rhetoric, for Ottawa not to provide personal and business tax relief. Annual surpluses represent over-taxation by government and the money should go back to taxpayers by way of income tax relief.”

This example is highlighted to stress the focus of readers of the financial statements and the challenges presented by including such things as unrecognized fair value gains and losses in the computation of the annual surplus. While all financial

(statement of financial position).

	<p>statements require some aspect of fair value measurement, such as the revaluation of foreign exchange on monetary assets or liabilities as at period-end, the more aspects that are included the less relevant the financial statements become from the perspective of informing users as to how the Government has earned and spent taxpayer's dollars.</p> <p>In terms of specific proposals in the IPSASB exposure drafts, the preference is not to have direct charges to net equity/assets. Since government equity is the accumulation of annual surplus/deficit, and does not include a "share capital" component as in the private sector, direct charges to net equity/assets do not provide meaningful information to users of financial statements to demonstrate how a government discharged its financial obligations. IPSASB should consider the merits of allowing deferral of fair value changes in derivatives held for cash flow hedges on the Statement of Financial Position, rather than as a direct charge to net equity/assets. Also, the use of available-for-sale financial assets should be eliminated which would then eliminate the other common charge directly to equity. This is consistent with the direction taken by the IASB.</p> <p>As well, the proposal to fair value financial guarantees issued at no or nominal consideration is concerning. The Government of Canada has various loan guarantee programs. Currently a provision is established for expected payments under the terms of loan guarantees. This provides useful information in assessing future obligations of the government. It is not expected that there would be quoted prices available in an active market. We are in agreement with the proposed accounting related to concessionary loans.</p> <p>As a final note, we are concerned that the IASB has issued an exposure draft on Financial Instruments, with comments due in September 2009, which is not consistent with the proposed IPSASB standard. One goal of the IASB revisions is to reduce the complexity in accounting for financial instruments by replacing existing requirements with a simplified and improved approach. This includes reducing the categories of financial instruments to two: amortized cost and fair value. Since IPSASB is adopting an approach to replicate private sector standards, we believe it would be appropriate for IPSASB to defer any financial instrument standard until the deliberations on the IASB standard have been completed. At that time, IPSASB can consider if the revised IASB standard is suited to public sector entities. Issuing a standard at this time, based on a changing private sector standard, will likely result in a revision to the standard before the implementation date.</p>	<p>To be addressed as part of Section B.</p> <p>[Direction requested from the Board at September meeting]</p>
<p>021</p>	<p>Office of the Comptroller of Ontario</p>	
	<p>Ontario does not support IPSASB's proposal to adopt IASB standards on financial</p>	<p>Staff notes that many of these comments relate to convergence</p>

instruments prior to the completion of its conceptual framework project. The adoption of standards intended for commercial entities presumes that those standards would be appropriate for public sector entities and not conflict with the IPSASB's eventual conceptual framework. As expressed in our March 2009 response to the Board's exposure draft on *Phase I of the Conceptual Framework for General Purpose Financial Reporting*, there are fundamental differences between the environments in which public and private sectors operate, and the needs of users of each sector's financial reports. It is important that public sector accounting standards address the needs of primary users of government financial statements (the public) to ensure transparency and accountability in government financial reporting. As the primary user of government financial reports, the public is not interested in making economic resource allocation decisions in reviewing a government's financial reports but rather relies upon the reports in assessing transparency and accountability. An IFRS-based standard developed to meet the needs of private sector users (investment community) would not necessarily meet the needs of public sector users, and may result in decisions which are not in the public's best interests

From a practical perspective, the suggested approach of subsequently revising the IFRS-based standards to government specific standards in 2011 would be a complex, costly, and time consuming process which may require significant restatements to government financial statements, thus reducing transparency and accountability in government reporting. Given the nature, size and complexity of governments, adoption of new standards is taken very seriously as their implementation has a significant impact on a variety of areas including financial reporting and management processes, internal controls as well as changes to systems and other infrastructure. It is Ontario's position therefore, that no financial instrument standards be issued for the public sector until such time that there is certainty that it will align with IPSASB's conceptual framework under development for the public sector.

The IASB's standard on financial instruments continues to undergo changes as evidenced by its most recent issuance of an exposure draft on classification and measurement. We note that the most recently proposed standards appear to be significantly different from the current standard upon which the IPSASs proposed standard is based. We would therefore expect the Board to re-issue another exposure draft, should it decide to continue with its existing strategy. Undoubtedly, the complexity and confusion that will arise from this process will be significant and create instability in government financial reporting. We therefore, suggest that IPSASB guidance on this topic be deferred and only be re-exposed when its conceptual framework activities are sufficiently complete, and IASB's related standards are more stabilized.

Additional comments on areas for customization are included in Appendix A to this

generally. [[Direction requested from the Board at September meeting]

	letter.	
022	CIPFA	
	<p>We strongly support IPSASB’s project to develop a suite of IFRS converged IPSASs on relevant issues, closely reflecting IFRS where this is possible, and providing interpretation or additional guidance where this is necessary.</p> <p><u>Comments on the content of the Exposure Drafts</u></p> <p>The EDs are based on IAS 32, IAS 39 and IFRS 7 modified using the IPSASB’s ‘public sectorization’ approach. They also include similarly modified IFRIC material in appendices, to bring together a coherent body of guidance on financial instruments. In addition to the ‘public sectorization’ of terminology and examples, the Exposure Drafts extend the scope of the proposed standards to encompass financial instruments which arise under contractual arrangements with a non-exchange element.</p> <p>We agree that it is appropriate to extend the scope in this way. We also agree with the Board’s analysis which notes that there are wider classes of arrangement with characteristics similar to financial instruments in the public sector which are not covered. We agree with the decision of the Board to defer consideration of these in order to progress the IFRS convergence agenda in a timely manner.</p> <p>In general we agree that the public sectorization is helpful, and the additional material is appropriate and should be reflected in the IPSAS as proposed. Answers to the specific questions in the exposure drafts are attached.</p> <p><u>Comments on timing, having regard to recent developments</u></p> <p>As noted above, we strongly support the Board’s project to produce as complete as possible a set of IPSASs by 31 December 2009, having regard to related IFRS as at 31 December 2008 insofar as they are relevant. This will form a high quality and credible basis from which to develop further standards and guidance, including public sector specific issues on which IFRS is silent.</p> <p>Having said this, the position of reporting standards on financial instruments at the present time is very fluid. In the light of the financial crisis the IASB and some other national standard setters have been accelerating projects to improve this complex area of financial reporting. A number of fast-track amendments have already been made to existing standards, and in May 2009 the IASB announced its intention to substantially revise and simplify financial instruments reporting, including developing a new classification and measurement standard which will have effect from 2009 year ends, and the issuance of consultation material on impairment of</p>	<p>Staff notes that, on balance, response supports IPSASB’s proposed approach [Direction requested from the Board at September meeting]</p>

	<p>financial assets and on hedging before the end of 2009. In June 2009, the IASB issued an exposure draft on classification and measurement, and a request for information on impairment of financial instruments, asking for responses by September 2009.</p> <p>In the light of the above, it is natural to consider whether for the specific case of financial instruments, it would be better to delay development of related IPSAS guidance. The body of guidance which has been ‘public sectorized’ in the Exposure Draft is complex and detailed, and it might be advantageous to wait until the IASB has completed its development and deliberations, and produce a public sectorized version of revised standards when these have been issued.</p> <p>We note that the IPSASB considered these issues at its Washington meeting in May 2009, and issued a press release reaffirming the Board’s commitment to the production of a comprehensive set of standards and removing reliance on a hierarchy of standards which includes standards which are not designed for application in the public sector. The Board therefore decided to continue its full consultation on exposure drafts relating to Financial Instruments, and will consider any changes ultimately adopted by the IASB in due course.</p> <p>On balance, we agree with the IPSASB position, given that development and implementation of a revised IPSAS would require a further round of ‘public sectorization’, Board approval, and subsequent due process. We were glad to see that the IPSASB press release also highlights the need to consider actions to be taken to reflect revised IFRS guidance.</p>	
<p>023</p>	<p>Minister of Finance – Canada</p>	
	<p>We disagree with the introduction of the concept of measurement at fair value for governments. In our view, fair value does not represent an appropriate measurement basis for governments because:</p> <ul style="list-style-type: none"> – Recognition of budgetary surpluses or deficits resulting from changes in unrealized changes in market value could create inappropriate public expectations. For instance, a budget deficit arising from unrealized losses would force the government to reduce spending to balance the budget. On the other hand, a budget surplus arising from unrealized gains on financial instruments would create pressure to increase program spending even though the gains are only “on paper” and may never be realized. – In the context of managing a government’s debt, transactions are not carried out with the intention of speculating on markets. <p>In addition, we believe that the proposed standards are based to an excessive degree</p>	<p>Staff notes general disagreement with various conceptual underpinnings of IFRSs; fair value in particular.</p> <p>[Direction requested from the Board at September meeting]</p>

	<p>on private sector standards and do not sufficiently reflect the realities of governments.</p> <p>Basically, governments are by their nature different from private sector enterprises. Governments' objectives regarding the presentation of financial information differ from those of private sector enterprises. Accordingly, the accounting standards set for private sector enterprises are not necessarily adequate for government accountability.</p> <p>Moreover, in periods of financial market turbulence such as we are currently experiencing, many standards-setting organizations are making or will make changes to their standards for financial instruments. In such a context, we believe that IPSASB must draw from the private sector's experience to date and adapt standards for financial instruments to government realities.</p> <p>Accordingly, we fully support the IPSASB objective of making information on financial instruments as transparent and understandable as possible for users of financial statements. Thus, we suggest that accounting at historical cost be maintained and that the fair value of financial instruments be disclosed in notes.</p> <p>This proposal avoids irrational decisions arising from volatility that would be generated by recognition of changes in market value in the budgetary results of the year in which they are recognized. In addition, it is consistent with the constraints governments must live with regarding management of public finances.</p> <p>Lastly, the qualitative information requested on the matter of risk (objectives, policies, management procedures and risk assessment) is management information more than financial information. This information is of a strategic nature and its disclosure should not be required by accounting standards.</p> <p>Also, for the information disclosed to be useful for users, it must be published in a timely fashion. Production of financial statements together with a qualitative and quantitative analysis of each type of risk arising from financial instruments requires time and resources, causing additional delay in producing the public accounts. We are of the view that the benefits relating to this information are not warranted by the additional time and cost incurred to produce it.</p>	<p>Staff notes that some public sector entities enter into complex financial instruments. While it is appropriate to measure certain instruments at amortised cost, it is equally appropriate to measure others at fair value. For example, it is appropriate to measure derivatives and instruments held-for-trading at fair value because this reflects management's intention for holding these instruments. Volatility on certain instruments provides the users with information about the specific risks and entity is exposed to and how these could affect the financial performance and position of an entity.</p> <p>Management can use a number of tools to explain fair value gains and losses as well as volatility in the financial results to users of the financial statements by using the cash flow statement and the notes to the financial statements.</p> <p>To be addressed in Part B under the comments to ED39.</p> <p>To be addressed in Part B under the comments to ED39.</p>
024	United Nations	
	No comment on approach.	Noted.

025	Australian Accounting Standards Board	
	<p>The AASB supports the IPSASB’s programme to update convergence of accrual basis International Public Sector Accounting Standards (IPSASs) with International Financial Reporting Standards to the extent appropriate for public sector entities. Accordingly, the AASB agreed with the IPSASB’s original decision to use IAS 32 <i>Financial Instruments: Presentation</i>, IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 7 <i>Financial Instruments. Disclosures</i> as the basis for EDs 37, 38 and 39 respectively.</p> <p>However, the AASB recommends that the IPSASB reconsider its position and defer its decision making until the IASB completes its short-term project to significantly amend IAS 39. It would be unfortunate if entities faced a duplication of cost and effort from implementing, within a relatively short time, IPSAS equivalents to both the current and revised versions of IAS 39.</p> <p>If the IPSASB proceeds with issuing these proposed IPSASs, it should explain how, and when, it intends to deal with the IASB’s changes to IAS 39. For example, would it consider finalising the proposals but making their implementation optional pending revisions to IAS 39.</p> <p>Subject to that concern, the AASB generally supports the proposals in EDs 37, 38 and 39, except for the matters noted below in relation to ED 37 and ED 38.</p>	<p>Staff notes general agreement with the approach, although respondent notes concern about the timing of the project and the impending revisions to IAS 39.</p> <p>[Direction requested from the Board at September meeting]</p>
026	NIVRA	
	<p>In general we would like to express our concerns regarding the issuance of IPSASs on financial instruments based on the current IAS 32, IAS 39 and IFRS 7 now that the IASB has announced some very significant changes to their standards in 2009 and in 2010. We would like to urge you to take this into account by anticipating on the announced changes or postponing the issuance of the exposure drafts.</p>	<p>Staff notes general agreement with the approach, with concerns noted by the respondent about the timing of the project and the impending revisions to IAS 39. [Direction requested from the Board at September meeting]</p>
027	Comptroller General of British Columbia	
	<p>The Summary Financial Statements of the Province of British Columbia are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. Because PSAB may be influenced by IPSASB, any changes to IPSASs will affect PSAB guidance in the future.</p> <p>The information requirements of the users of public and private sector financial statements are fundamentally different. The implementation of the proposed</p>	<p>Staff notes general concerns about using IFRSs as a basis for the preparation of public sector accounting standards as well as the timing of the project given the impending revisions to IAS 39.</p>

standards provides no demonstrable benefits to the users of public sector financial statements who look to financial statements for transparency and accountability rather than to make economic decisions. Governments are large complex organizations, and changing accounting standards can be time consuming and costly. The cost and effort of implementing accounting standard changes throughout a government organization and its processes is significant. IPSASB guidance on this topic should be deferred until the work that is currently underway on its conceptual framework is complete and the IASB guidance on financial instruments is resolved. It is imperative that IPSAS standards are first consistent with its final conceptual framework; this will help assure governments that accounting standards are conceptually sound and that they will not be faced with significant revisions to a new standard shortly after adoption.

The proposals contained in exposure drafts 37-39 are based upon the equivalent accounting standards in International Financial Reporting Standards (IFRSs). However, the objectives of financial reporting in the public sector are more diverse than the objectives of the financial reporting of financial statements prepared according to IFRSs. Under IFRSs, the primary objective is to help participants in the world's capital markets and other users make economic decisions. The primary objective of government financial statements is accountability. A fair representation of accountability requires a balanced presentation of data and information.

The introduction presented in the background and approach to exposure drafts 37-39 explains that they are largely drawn from IAS 39 as part of IPSASB's plan of convergence with IFRS. The IASB has stated that it will reduce the complexity in reporting financial instruments. IASB is proposing to replace IAS 39 and has recently issued an agenda for the release of a series of separate exposure drafts on classification and measurement, impairment, and hedging. This series of proposed amendments to IAS 39 has either been released or is scheduled for release later this year. The IASB, at its May 2009 meeting, proposed that financial instruments would have two measurement categories which are fair value and amortized cost. The outcome of this working premise is the elimination of the following measurement categories of financial instruments: loans and receivables; financial instruments held to maturity; and financial instruments available for sale. Given that such fundamental changes are pending IFRSs guidance on financial instruments, we question the timing of exposure drafts 37-39 and request that consideration should be given to deferring any implementation until IASB have updated their financial instrument guidance.

We believe that the fair value principles outlined in exposure drafts 37-39 are not suitable for the public sector for the following reasons:

- Governments do not engage in speculative trading activities to maximize profit.

[Direction requested from the Board at September meeting]

Financial derivatives are used by government entities to hedge interest rate and currency risks associated with the existing debt portfolio and new borrowings. Also, governments generally hold their financial instruments to maturity. The use of fair value measurements will result in considerable fluctuations in valuation that would not reflect the government's objectives or the obligations that must be discharged at maturity.

- The immediate recognition of unrealized gains and losses resulting from recognizing the changes in fair value of financial instruments could cause artificial volatility in the government's bottom line and could lead to poor decision-making based on the impact to the surplus/deficit. Immediate recognition could also mislead the public in terms of the government's performance and the availability of funding when changes in the operating statement result from fair value disclosures on assets or liabilities that the government has no intention of selling. For example, in a year where substantial unrealized gains are recognized in the operating statement, it could be interpreted that the government has funding available for new programs when in fact, it does not. Governments are constantly under pressure to produce a balanced budget. Recognizing changes in unrealized gains or losses in the operating statement would make this task even more difficult due to the difficulty in accurately forecasting market value and gains/losses for a specific type of financial instruments over a year. The proposed standards may also result in unwarranted changes to the debt management strategy. Governments may become unwilling to accept the volatility associated with changes in fair values (on the derivatives portfolio) in instances where the hedged item and hedging item are not perfectly correlated. Due to the added administrative burden of reporting, they may also decide not to utilize derivative based hedging strategies, even if they are prudent from a debt management perspective. This could ultimately result in increased debt servicing costs and less funding available for other government services.
- The introduction of some unrealized financial instrument gains and losses directly to net equity is intended to address these issues by directing the impact of changes in fair value measurements of derivatives in a manner similar to IFRS's "Other comprehensive income"(OCI) when they are identified as part of a hedging arrangement. The intention is to isolate the impact of funding decisions in the surplus or deficit disclosure. The actual result is a complex process of recognizing gains or losses in net equity and transferring them to surplus or deficit over time as gains or losses are recognized on the related hedge items.
- We question the cost/benefit value of the changes proposed in exposure drafts

37- 39. Although the proposals may fulfil certain information needs of equity holders of private enterprises, we suggest that note disclosure would be preferable for government reporting entities and more reliable for the users of public sector financial statements. In addition, the cost of obtaining valuations on derivatives and the administrative burden of tracing gains and losses through net equity may not be worth the perceived reporting benefits. The province's hedging arrangements are not actively traded items. Many are specifically purchased with matching critical terms to hedge long term exposures and are not intended to be short term investments. Pricing and reporting of income fluctuations in the values of derivatives, while not including similar information for the underlying instruments, can provide misinformation to statement users. There would also be a need to educate the general public about the new financial instrument terminology and how the new information will be incorporated and presented into the financial statements currently being used.

The province disagrees with the exclusion of synthetic accounting as required by paragraph AG62 of the exposure draft 37. The province does not speculate in capital markets so there is little benefit in reporting the gain or loss components of a synthetic investment arrangement separately. The intent of the province is to hold these investments to maturity and benefit from their offsetting economic properties as a whole rather than capitalize on opportunistic gains. Therefore, it is misleading and inappropriate to require the reporting of independent components of a synthetic investment, provided that the critical terms of the arrangement remain constant throughout the reporting period as intended. Existing Canadian public sector GAAP currently provides guidance for synthetic financial instruments, provided that the financial instruments in question qualify for hedge accounting treatment under Canadian GAAP (see the Canadian public sector handbook sections 2600.39 and 2600.40). This provision in Canadian GAAP that allows for the accounting for synthetic investments simplifies the financial reporting of foreign denominated debt that has been swapped to emulate Canadian dollar denominated liabilities. The allowance in Canadian GAAP for synthetic financial instruments also simplifies the financial reporting of interest rate swaps. We recommend that IPSASB consider allowing for the accounting of synthetic financial instruments in a similar manner to that allowed by Canadian public sector section 2600.39 on the basis that its exclusion will dramatically increase the administrative burden and related costs for reporting. The exclusion of synthetic financial instrument would provide limited or no additional benefit for users of our financial statements.

Paragraph 12 of the background and approach to exposure drafts 37-39 refers to “the tight timetable for approving these proposed IPSASs; the IPSASB stresses the importance of making comments by the comment deadline of July 31, 2009 to ensure that the IPSASB may fully consider those comments.” While we agree that the

The current requirements of IAS 32 disallow synthetic instruments to be offset unless they meet two criteria, i.e. the parties have a contractual undertaking to settle on a net basis, and the parties intend to settle only net positions. This issue can, however, be researched as part of a future project to deal with public sector specific issues relating to financial instruments.

	<p>timely issue of IPSASs is important, we wish to stress to IPSASB that a tight timetable should be waived in preference to ensuring that the most appropriate IPSASs are approved by IPSASB.</p>	
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**SECTION B – ANALYSIS OF SUBMISSIONS RECEIVED ON ED 37,
“FINANCIAL INSTRUMENTS: PRESENTATION”**

Section B of the analysis of submissions received on ED 37, “Financial Instruments: Presentation”, considers respondents’ comments on the specific matters for comment in ED 37 as well as any other issues raised.

This analysis is provided in two parts. Part I provides Staff’s classification of responses to the specific matters raised in ED 37; summarizes key themes emerging from other issues raised by respondents; and highlights key issues to be considered by the Board. Part II provides respondents’ detailed comments as well as Staff’s proposed course of action (which may include deliberation of certain issues at the September 2009 meeting of the IPSASB).

**Part I – Summarised analysis of respondents’ views on ED 37,
“Financial Instruments: Presentation”**

The IPSASB requested respondents’ views on two specific issues, one relating to the treatment of financial guarantees, and the other on the proposed transitional provisions to ED 37. An analysis of respondents’ views is outlined in Part II.

Specific matter for comment 1 – Treatment of financial guarantee contracts

Background

The IPSASB requested views on the following specific matter for comment:

ED 37 allows entities to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to recognize and measure them in accordance with the international or national accounting standard dealing with insurance contracts. However, all financial guarantee contracts issued at no or nominal consideration are required to be treated as financial instruments. Do you agree with this approach? Please state your reasons for either agreeing or disagreeing with this approach.

Analysis

Staff’s classification of responses is included at Table I a total of 19 respondents expressed a view on this issue. Of the 19 respondents, 12 (63%) agreed with the approach adopted by the IPSASB, while 7 (37%) disagreed with the approach.

Those respondents who agreed with the proposed treatment of financial guarantees cited the following reasons for their positive response:

- Entities in the public sector do not make a profit from issuing financial guarantees issued at no or nominal consideration, therefore it is appropriate to treat them as financial instruments;
- There is a clear difference between financial guarantees issued through exchange and non-exchange transactions;

- Financial guarantees issued by way of a non-exchange transaction are not managed in accordance with insurance practice;
- As IFRS 4 does not provide explicit guidance on insurance contracts issued at no or nominal consideration, it is more appropriate to treat them as insurance contracts; and
- There is no public sector reason to deviate from IAS 32 with regards to the treatment of financial guarantees issued by way of an exchange transaction.

Those respondents who disagreed with the proposed treatment of financial guarantees cited the following reasons for their negative response:

- There is no difference between financial guarantees issued through exchange or non-exchange transactions and they should therefore be treated in the same way;
- Comparability is compromised by treating the same instrument differently;
- The option as currently drafted in ED 37 is more permissive than that of IAS 32 and IFRS 4, “Insurance Contracts”. The text of ED 37 makes no reference to an ‘irrevocable’ choice, unlike IAS 39 and IFRS 4; and
- A national accounting standard dealing with insurance contracts should only be applied to financial guarantees if an equivalent “liability adequacy” test exists in that standard. If not, IFRS 4 should be used and not the national standard.

While most respondents agreed with the IPSASB’s proposals, there are, however, underlying concerns raised by other respondents that need to be considered by the Board.

Table I – Staff’s classification of responses to specific matter for comment 1 (Treatment of financial guarantees)

Respondent no.	Key	Total
001, 002, 005, 008, 014, 015, 017, 018, 022, 027	Agree with both proposals	10
006, 016	Agree with both proposals, with additional considerations or changes to wording	2
007, 011, 025, 026	Disagree: <ul style="list-style-type: none"> • allow option for both exchange and non-exchange financial guarantees; and/or • align option with IFRS 4 and IAS 32 	4
012, 013	Disagree: <ul style="list-style-type: none"> • treat both exchange and non-exchange financial guarantees as financial instruments; and • treatment of other contracts that transfer financial risk. 	2
019	Disagree, there should be comparable treatment: <ul style="list-style-type: none"> • for both exchange and non-exchange financial guarantees (no specific preference); and • for other insurance contracts that transfer financial risk. 	1
		19

Key issues requiring consideration by the Board

Treatment of financial guarantees as insurance contracts or financial instruments

In developing ED 37, the Board agreed that financial guarantee contracts issued through an exchange contract could either be treated as an insurance contract or as a financial guarantee contract using the broad principles in IAS 32, 39 and IFRS 4. It concluded that there was no public sector reason to depart from the requirements of IAS 32 and 39. It did however conclude that all financial guarantee contracts issued through a non-exchange transaction should be treated as financial instruments.

Based on the comments received, respondents have two main concerns with this approach:

1. There is no reason to treat a financial guarantee contract issued through a non-exchange contract differently from a financial guarantee contract issued through an exchange. Of the respondents who disagreed with the approach:
 - 4 out of the 7 proposed that the same election be allowed for financial guarantee contracts issued through non-exchange transactions.

- 2 out of 7 proposed that all financial guarantee contracts should be treated as financial instruments.
 - 1 out of the 7 respondents expressed no clear view but expressed their desire for comparability (as did the other 6 respondents).
2. The election, as currently drafted in ED 37 is more permissive than that of IAS 32, 39 and IFRS 4. One of the respondents also noted that the election should only be allowed if the equivalent national accounting standard has a “liability adequacy” test similar to that of IFRS 4.

Key issue 1(a): Apply election to all financial guarantee contracts or treat all financial guarantee contracts as financial instruments

Some considered that, as the economic substance of a financial guarantee contract issued through an exchange transaction is no different from that issued through a non-exchange transaction, there is no public sector reason to not allow entities an option to treat financial guarantee contracts as insurance contracts. Conversely, other respondents indicated that the fact that no consideration is charged is a compelling reason for the accounting to be different.

As the IPSASB has not issued a standard on insurance contracts, the effect of allowing the election is that, if entities treat financial guarantee contracts as insurance contracts, they would use IFRS 4 or their own national accounting standard. IFRS 4 is prescriptive about obligations for insurance contracts satisfying a “liability adequacy” test. This means that the liability recognized at year end for an insurance contract or portfolio of insurance contracts should at least be equivalent to the current estimate of the contractual cash flows from those contracts.

A national accounting standard may, however, not prescribe a similar test. If so, the effect of allowing the election may be that the entity recognises no obligation. As an alternative, entities could be restricted to applying only IFRS 4 or those national practices to the extent that they require liabilities for insurance contracts or portfolios of insurance contracts to be measured using estimates of their current contractual cash flows.

On the other hand, specific accounting is prescribed in EDs 37, 38 and 39 for the initial recognition as well as initial and subsequent measurement of financial guarantees and can be applied to those contracts issued through both exchange and non-exchange transactions. The treatment of all financial guarantee contracts may pre-empt any future project undertaken by the IPSASB on insurance contracts. The IPSASB could, however, at that stage issue consequential amendments to the financial instruments standards if it deems insurance accounting to be more appropriate for certain financial guarantees.

The Board is asked to reconsider this issue in light of the four options identified by Staff below:

1. Approach 1: Retain current approach, i.e. treat financial guarantee contracts issued through a non-exchange transaction as financial instruments and allow entities a choice to treat financial guarantee contracts issued through an exchange transaction either as a financial instrument or, as an insurance contract using

- either the international or national accounting standard dealing with insurance contracts
2. Approach 2: Allow entities to treat both financial guarantee contracts issued through exchange and non-exchange transactions either as financial instruments or insurance contracts, and allow entities to treat financial guarantee contracts as insurance contracts using either the:
 - International accounting standard dealing with insurance contracts; or
 - National accounting standard dealing with insurance contracts, but only where this standard requires insurance obligations to be measured at the current estimate of the contractual cash flows from those contracts.
 3. Approach 3: Allow entities to treat both financial guarantee contracts issued through exchange and non-exchange transactions either as financial instruments or insurance contracts, and allow entities to treat financial guarantee contracts as insurance contracts using only the international accounting standard dealing with insurance contracts i.e., IFRS 4.
 4. Approach 4: Require entities to treat all financial guarantee contracts as financial instruments.

Staff is of the view that Approach 2 seems to be the most feasible option as it alleviates many respondents' concerns around comparability and the use of a national standard on insurance that may allow less prescriptive accounting than IFRS 4.

Action Required

Members are asked to confirm the Staff view that Approach 2 should be adopted for the treatment of financial guarantee contracts issued through exchange and non-exchange transactions.

Key issue 1(b): Wording of current election in ED 37 and ED 38

Respondents also raised concerns over the current wording of ED 37 and ED 38 regarding the election to treat financial guarantee contracts either as financial instruments or insurance contracts.

IFRS 4.4 states the following: “An entity shall not apply this standard to ... (d) financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either IAS 39, IAS 32 and IFRS 7 or this Standard to such financial guarantee contracts. An issuer may make that election contract by contract, but the election for each contract is irrevocable.” (own emphasis)

ED 37.3(c)(iii) states the following: “Financial guarantee contracts by way of an exchange transaction, if the issuer applies ED 38 in recognizing and measuring the contracts, but shall apply the relevant international or national accounting standard dealing with insurance contracts if the issuer elects to apply that standard in recognizing and measuring them.”

Effectively the last sentence of IFRS 4.4(d) has not been included in the equivalent paragraph of ED 37. The current interpretation of ED 37 would not for example, prohibit entities from deciding at a later date to treat such contracts as financial instruments.

Staff is of the view that, in order for the wording and intention to be consistent with IAS 32, the election should be aligned with IFRS 4.

Action Required

Members are asked to consider whether they agree with Staff’s view that the election should be reworded.

Specific matter for comment 2 – Transitional provisions

The IPSASB posed the following question to respondents:

Specific matter for comment 2: The transitional provisions to ED 37 do not provide any relief for entities initially adopting accrual accounting from preparing and presenting comparative information. Do you support this proposal? If additional transitional provisions are necessary, please indicate what these should be and state your reasons.

Analysis

Staff’s classification of responses is included at Table II. A total of 17 respondents provided input on the transitional provisions. Of the 17 respondents, 10 agreed with the transitional, 3 disagreed and 4 expressed no clear view.

The reasons provided by those respondents disagreeing with the proposed transitional provisions relate predominantly to the resource implications of producing comparative information as transactions may have been entered into several years ago.

Table II – Staff analysis of responses to specific matter for comment 2 (Transitional provisions)

	Specific matter for comment 2		
	Agree	Disagree	No view
Respondent number	002, 005, 007, 008, 013, 016, 019, 022, 025, 026	012, 015, 018	001, 006, 011, 027
	10	3	4

Key issues requiring consideration by the Board

Key issue 2: Transitional provisions for the adoption of ED 37

Staff is of the view that comparative information would be useful to the users of the financial statements, despite the fact that it may be difficult for entities to produce the necessary information. To the extent that entities are unable to apply the transitional provisions retrospectively, they could apply the “impracticability” criteria in paragraphs 28 to 32 of IPSAS 3, which outline when limitations on the retrospective application of transitional provisions may apply.

Therefore the Staff view is that the transitional provisions in ED 37 should not be amended.

Action Required

Members are requested to confirm that the transitional paragraphs 56 to 58 of ED 37 should be retained.

PART II – SUMMARY OF RESPONSES RECEIVED AND STAFF’S PROPOSED RESPONSE

Part II		
Item	Comment	Analysis and response
ED 37, “Financial Instruments: Presentation”		
<i>Specific matter for comment 1:</i>		
<i>ED 37 allows entities to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to recognize and measure them in accordance with the international or national accounting standard dealing with insurance contracts. However, all financial guarantee contracts issued at no or nominal consideration are required to be treated as financial instruments. Do you agree with this approach? Please state your reasons for either agreeing or disagreeing with this approach.</i>		
001	Comité des Normes de Comptabilité Publique	
	As mentioned in paragraph BC 6, we agree that it is better not to mention standard concerning insurance contracts in accounting for financial guarantee contracts in the public sector. However, as noted in reply to the question 2 of ED 38, we believe that these contracts should be accounted for at nominal or contract value at initial recognition and that subsequent measurement should be at the higher of the amount determined in accordance with IPSAS 19 and the amount initially recognized, less, when appropriate, cumulative amortization.	Noted. Approach to be confirmed after consideration of key issue 1.
002	Swiss Public Sector Financial Reporting Advisory Committee	
	We agree that all financial guarantee contracts issued at no or nominal consideration are financial instruments and therefore within the scope of this ED. This allows equal treatment for all types of guarantees. However, we have some reservation as to the proposed measurement (cp. paragraph 2 under 3.2).	Noted. Approach to be confirmed after consideration of key issue 1.
003	The OPEC Fund for International Development	
	No comment.	Noted.
004	Dr J Maresca	
	No comment.	Noted.

005	Fédération des Experts Comptables Européens	
	We agree with this approach. In our view it would be anomalous to use insurance accounting for contracts which have not been priced or managed in accordance with insurance practice.	Noted. Approach to be confirmed after consideration of key issue 1.
006	Public Sector Accounting Board	
	We agree. Until a comprehensive review of accounting for insurance contracts is completed, IPSASB should not restrict the application of national standards that apply to the reporting of insurance contracts. To maintain the integrity of the standard, it is important that contracts with the features of a derivative be accounted for as derivatives.	Noted. Approach to be confirmed after consideration of key issue 1.
007	Financial Reporting Standards Board (New Zealand)	
	<ol style="list-style-type: none"> 1. The FRSB does not consider that it is necessary to mandate the treatment of financial guarantee contracts issued at no or nominal consideration as financial instruments (paragraph 3(c)(i)) and disagrees with the proposal to allow a choice of treatments for exchange transactions (paragraph 3(c) (iii)). 2. The FRSB acknowledges that in proposing that financial guarantee contracts issued at no or nominal consideration be accounted for as financial instruments, the IPSASB had regard to the potential significance of financial guarantee contracts in the public sector and was seeking to enhance the comparability of financial statements (as discussed in paragraph BC6 of the ED). However, as discussed below, the FRSB considers that comparability could be enhanced by other means. 3. In respect of paragraph 3(c)(iii),the FRSB does not support the open option that is proposed. As currently drafted, paragraph 3(c)(iii) would allow an entity adopting the proposed financial instrument standards to choose whether to account for financial guarantee contracts issued by way of an exchange transaction as an insurance contract from that point onwards. By contrast, entities applying IAS 32 can apply IFRS 4 <i>Insurance Contracts</i> only to financial guarantee contracts that the issuer has <i>previously elected</i> in accordance with IFRS 4 paragraph 4(d) to account for as insurance contracts. IFRS 4 paragraph 4(d) requires that the entity must have <i>previously</i> asserted explicitly that it regards such contracts as insurance contracts and used accounting applicable to insurance contracts. It also specifies that the election made by an entity in respect of each contract is irrevocable. Under IAS 32, and IFRS 4, this accounting policy choice has therefore been limited to a once-off election under very constrained circumstances. 4. We suggest that the IPSASB limit the ability of entities to apply an international or domestic insurance standard to both exchange and non-exchange financial guarantee contracts by including, in ED 37, requirements similar to IFRS 4 paragraph 4(d). This would more accurately reflect the very limited accounting policy choice that is available under IAS 32. We also consider that these 	Noted. Approach to be confirmed after consideration of key issue 1.

	restrictions would allay any concerns that IPSASB has about lack of comparability of financial guarantees issued at no or nominal consideration.	
008	Institute of Chartered Accountants of Scotland	
	We agree with this approach on the basis that we believe this is an appropriate interpretation of IAS 32 'Presentation' for the public sector.	Noted. Approach to be confirmed after consideration of key issue 1.
009	Dutch Local Government Accounting Standards Board (Commissie BVV)	
	No comment.	Noted.
010	Dr J Maresca	
	No comment.	Noted.
011	Cour des Comptes	
	<p>Financial guarantees that are granted by public sector entities may fall under accounting standards dealing with insurance contracts or financial instruments, as appropriate.</p> <p>However, it is not certain that the line passes through the existence (or not) of an exchange transaction or a nominal consideration, but rather through the existence (or not) of a market value. Some guarantees that are granted for no or a nominal consideration (guarantees of last resort) have no equivalent on financial markets, and treating them as financial instruments is of low interest, as those guarantees can not be exchanged.</p> <p>On the other hand, public sector entities may grant some guarantees that could be exchanged on a given market. In such a situation, a treatment as financial instruments may be appropriate.</p> <p>As a conclusion, an option should be left in the standard, with a case-by-case analysis of the situations. The current provision in the ED seems to be too restrictive.</p>	Noted. Approach to be confirmed after consideration of key issue 1.
012	Accounting Standards Board UK	
	<p>We can broadly accept IPSASB's conclusions on financial guarantees and the boundaries between insurance standards and financial instruments standards as an interim measure in the context of IPSASB's convergence strategy.</p> <p>We are not comfortable with the optionality that exists in the current proposals, particularly for financial guarantees issued by way of an exchange transaction (which may be accounted for either under the financial instruments standards or under the insurance standards). We consider it important</p>	<p>Noted. Approach to be confirmed after consideration of key issue 1.</p> <p>Noted. As this view was raised by a minority</p>

	<p>that a consistent approach is adopted across public sector entities. We would also highlight the need for further work on the optionality that exists for financial guarantee contracts that involve the transfer of financial risk. The proposals permit, but do not require, these contracts to be accounted for as financial instruments. As part of this work, it may be appropriate to consider contracts that transfer <u>only</u> financial risk.</p> <p>We agree with the proposal (as explained in paragraph BC 6) that <u>all</u> financial guarantee contracts issued by way of a non-exchange transaction, including those issued at nil or nominal consideration, are to be treated as financial instruments. We also agree with paragraph AG 18 that, in determining whether an arrangement is contractual or non-contractual, an entity needs to consider the substance rather than the legal form of an arrangement (which is why a guarantee issued for no consideration may be within the scope of the standard even if the absence of consideration might make its legal status questionable). As an important drafting point, we note the separation of AG 17 and AG 18 creates the risk that the view may be taken that all arrangements that are non-contractual are outside the scope of the standard by relying on AG 17 to the exclusion of AG 18. 4</p>	<p>of respondents, this can be considered as part of a future project to address the interaction between financial instruments and insurance contracts.</p>
<p>013</p>	<p>Accounting Standards Board South Africa</p>	
	<p>We do not agree with this approach for the following reasons:</p> <ul style="list-style-type: none"> • All financial guarantee contracts are similar in nature, regardless of whether they are issued by way of an exchange or a non-exchange transaction. Consequently, they should all be accounted for in the same way. • IAS 32 and 39, read in conjunction with IFRS 4, do not allow a free election to either treat a financial guarantee as a financial instrument or an insurance contract. An entity may only use IFRS 4 where the entity has previously asserted that financial guarantee contracts are insurance rather than financial instruments. • In the absence of a specific IPSAS that deals with insurance contracts, financial guarantee contracts will be accounted for differently by governments and their entities. <p>Given the significance of financial guarantee contracts in the public sector (particularly in the current economic climate), we propose that the IPSASB treat all financial guarantee contracts as financial instruments. Also see 3.1 below.</p> <p>If the IPSASB subsequently issues a standard on insurance contracts, consequential amendments, if any, could be made to the relevant financial instruments standards at that stage.</p>	<p>Noted. Approach to be confirmed after consideration of key issue 1.</p>
<p>014</p>	<p>European Commission</p>	
	<p>We agree with the requirement in ED 37 that all financial guarantee contracts issued at no or nominal consideration shall be treated as financial instruments. The reason for this is that the underlying business model of some international organisations and other public institutions (e.g. the European</p>	<p>Noted. Approach to be confirmed at the September Board meeting.</p>

	Communities) has the substance of financial activities and not insurance activities. We consider the definition of insurance contracts in IFRS 4 as not applicable in the public sector context. In particular the basic idea of making profit with the insurance of potential future events is an alien concept in the public sector context. This is evidenced by the fact that for the EC, most of the guarantee contracts are issued at no or nominal consideration.	
015	HoTARAC	
	HoTARAC agrees with this approach. HoTARAC is of the opinion that financial guarantees issued at no or nominal consideration may be different in substance to financial guarantee contracts issued through exchange transactions. Therefore, HoTARAC is comfortable with excluding the option to account for non-exchange financial guarantee contracts as insurance contracts.	Noted. Approach to be confirmed after consideration of key issue 1.
016	Japanese Institute of Certified Public Accountants	
	<p>We agree with this approach. The reason is as follows.</p> <p>Firstly, it is consistent to treat financial guarantee contracts issued through an exchange transaction as insurance contracts if the issuer elects to recognize and measure them in accordance with the international or national accounting standard dealing with insurance contracts, by electing to apply either IAS39 or IFRS 4 to financial guarantee contracts at paragraph 2 in IAS39 “Financial Instruments: Recognition and Measurement”, and it is not necessary to depart from IAS39 because a public sector specific reason does not exist.</p> <p>At paragraph 15 in IFRS4, an insurer shall assess at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If the national accounting standard dealing with insurance contracts does not require that an insurer apply such a liability adequacy test, an insurer’s recognized insurance liabilities may not be adequate. Therefore, when an insurer elects to recognize and measure financial guarantee contracts in accordance with the national accounting standard dealing with insurance contracts, IPSASs require that an insurer shall apply a liability adequacy test.</p> <p>Secondly, if an insurer elects to recognize and measure financial guarantee contracts issued at no or nominal consideration in accordance with the national accounting standard dealing with insurance contracts, the national accounting standard allows an insurer to treat them differently in different jurisdictions because there is no consensus about the accounting treatment, compared with those of financial guarantee contracts issued through an exchange transaction. This is the reason why it is rational to treat such financial guarantee contracts as financial instruments. Also, the so-called “law of large numbers”, which in effect states that as the number of exposure units increases, the actual results are increasingly likely to become close to expected results, is applicable to insurance contracts, and according to the “law of large numbers”, an insurer estimates the amount paid out in claims and the amount of premiums collected during the insurance term. This isn’t the case for financial guarantee</p>	Noted. Approach to be confirmed after consideration of key issue 1.

	<p>contracts issued at no or nominal consideration by public sector entities. Therefore, it is rational that an insurer of such a contract shall recognize a provision and measure the expenditure required to settle the present obligation on the reporting date at paragraph 49 in ED38.</p> <p>However, in order to make the accounting treatment clear, it is defined as “a financial guarantee contract not through an exchange transaction” rather than “a financial guarantee contract issued at no or nominal consideration”.</p>	
017	New South Wales Treasury	
	We generally agree with the response of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC).	Noted. Approach to be confirmed after consideration of key issue 1.
018	Association of Chartered Accountants (ACCA)	
	Given that there is currently no IPSAS on these and IFRS is even vaguer the accounting treatment for financial guarantee contracts should at least be consistent with IAS 32. Financial guarantee contracts issued at no or nominal consideration should be treated as financial instruments - contractual rights should be recognised. You might want to refer to some worked examples on financial guarantee contract set out in the UK Government financial reporting manual. http://www.financial-reporting.gov.uk/other_practical_examples_and_proformas.htm	Noted. Approach to be confirmed after consideration of key issue 1.
019	Audit Commission UK	
	<p>Whilst we are comfortable with the concept of accounting for financial guarantees issued through an exchange transaction as an insurance contract we do have a number of reservations with the ED as it stands.</p> <p>(i) We can foresee difficulties with the optionality that exists in the current proposals (para 3.4 c (iii)), as financial guarantees issued by way of an exchange transaction may be accounted for either under the financial instruments standards or under the insurance standards. We believe that comparability between the accounts of public sector entities should be one of the key objectives of any accounting regime and believe that, in its current form, the ED does not meet this objective.</p> <p>(ii) There is a need for further clarification on the treatment of financial guarantee contracts that involve the transfer of financial risk. The ED currently permits, but does not require, these contracts to be accounted for as financial instruments. This again could lead to a lack of comparability between the accounts of two entities that have identical transactions.</p>	<p>Noted. Approach to be confirmed after consideration of key issue 1.</p> <p>Noted. As this view was raised by a minority of respondents, this can be considered as part of a future project to address the interaction between financial instruments and insurance contracts.</p>

020	Treasury Board of Canada	
	No comment.	Noted.
021	Office of the Comptroller of Ontario	
	No comment.	Noted.
022	CIPFA	
	We agree with this approach. In our view it would be anomalous to use insurance accounting for contracts which have not been priced or managed in accordance with insurance practice.	Noted. Approach to be confirmed after consideration of key issue 1.
023	Ministry of Finance, Quebec	
	No comment.	Noted.
024	United Nations	
	No comment.	Noted.
025	Australian Accounting Standards Board	
	<p>In relation to ED 37, the AASB has concerns with:</p> <ul style="list-style-type: none"> (a) the proposal to treat financial guarantee contracts differently according to whether they arise from exchange or non-exchange transactions, and require financial guarantee contracts issued at no or nominal consideration to be treated as financial instruments; and (b) the proposal that an entity can elect to apply a national accounting standard dealing with insurance contracts in recognising and measuring financial guarantee contracts without making an irrevocable election, which is more permissive than the corresponding requirement in IAS 39. <p><i>Financial Guarantee Contracts should only be Treated Differently in Certain Circumstances</i></p> <p>The AASB disagrees with the proposal to treat financial guarantee contracts differently according to whether they arise from exchange or non-exchange transactions. It considers that, if an issuer of financial guarantee contracts arising from either exchange or non exchange transactions has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, it should be permitted to apply to such financial guarantee contracts either the IPSAS equivalent to IA S 39 (developed from ED 38) or the relevant international or</p>	Noted. Approach to be confirmed after consideration of key issue 1.

national accounting standard dealing with insurance contracts. However, it also considers that application of a national accounting standard dealing with insurance contracts should be permitted only if that standard contains a liability adequacy test consistent with that contained in paragraphs 15 — 19 of IFRS 4 *Insurance Contracts*, and until the effective date of any IPSAS equivalent to IFRS 4.

The AASB notes that a reason for requiring all financial guarantee contracts issued through non-exchange transactions to be treated as financial instruments is that such contracts might otherwise be measured at zero (in effect, not recognised) if the entity decides to treat these instruments as insurance contracts, and the national accounting standard dealing with insurance contracts that it applies does not have a liability adequacy test equivalent to that in IFRS 4. A liability adequacy test, if applied, would prevent non-recognition of financial guarantee obligations arising from non-exchange transactions because it focuses on cash outflows arising from honouring the obligation rather than the amount, if any, paid to the public sector reporting entity as compensation for incurring the financial guarantee obligation.

The AASB considers that its proposal to permit application of a national accounting standard dealing with insurance contracts only if that standard contains a similar liability adequacy test to that in IFRS 4 would avoid the concern noted above.

There this condition is not met, regardless of whether the financial guarantee contract arose from an exchange or non-exchange transaction, the AASB considers that the contract should be recognized and measured in accordance with the IPSAS equivalent to IAS 39.

Consistency with IFRSs regarding the Circumstances in which Financial Guarantee Contracts may be Recognised and Measured under Accounting Standards dealing with Insurance Contracts

The AASB considers that the application of a relevant national accounting standard dealing with insurance contracts in recognising and measuring financial guarantee contracts arising from exchange transactions should be subject to the same conditions that IFRS 4 imposes on treating financial guarantee contracts as insurance contracts.

Under paragraph 4(d) of IFRS 4:

(a) TFRS 4 may be applied if the issuer of a financial guarantee contract has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts; and

(b) the election of whether to apply IFRS 4 or the Financial Instruments Standards to a financial guarantee contract is irrevocable.

Paragraph 4(d) of IFRS 4 is invoked by scope paragraph 2(e) of IAS 39, but the reference to 'irrevocable' application has not been retained in equivalent paragraph 2(e) of IPSASB ED 38. Therefore, an entity can elect to apply either a national accounting standard dealing with insurance contracts or the Financial Instruments IPSASs in recognising and measuring financial guarantee contracts without making an irrevocable election, unless the scope paragraphs of the relevant national

	<p>accounting standard applied have such a condition.</p> <p>The AASB considers there is no public sector-specific reason for providing a revocable election of which accounting standard(s) to apply when recognising and measuring financial guarantee contracts. Therefore, it recommends amending paragraph 2(e) of IPSASB ED 38 to reinstate the requirement that the election of whether to apply that a national accounting standard dealing with insurance contracts or the Financial Instruments IPSASs to a financial guarantee contract is irrevocable.</p> <p>Because the AASB disagrees with the proposal to treat financial guarantee contracts differently according to whether they arise from exchange or non-exchange transactions, these comments apply equally to financial guarantee contracts arising from exchange and non-exchange transactions.</p>	
026	NIVRA	
	<p>We do not agree with the requirement to treat financial guarantee contracts issued at no or nominal consideration as financial instruments. There does not seem to be a public sector specific reason to deviate from IAS 32. A clear reason is not given in the basis for conclusions (BC6). The simple fact that these contracts are more significant in the public sector does not justify the limitation of the option in IAS 32 to contracts by way of an exchange transaction. We propose to include the option of IAS 32 for all financial guarantee contracts.</p>	Noted. Approach to be confirmed after consideration of key issue 1.
027	Comptroller General of British Columbia	
	<p>We agree that all financial guarantee contracts issued at no or nominal consideration should be treated as financial instruments. This treatment is consistent with the treatment of financial guarantees in the province's Summary Financial Statements.</p>	Noted. Approach to be confirmed after consideration of key issue 1.
<p><i>Specific matter for comment 2:</i></p> <p><i>The transitional provisions to ED 37 do not provide any relief for entities initially adopting accrual accounting from preparing and presenting comparative information. Do you support this proposal? If additional transitional provisions are necessary, please indicate what these should be and state your reasons.</i></p>		
001	Comité des Normes de Comptabilité Publique	
	<p>We cannot reply since IPSAS standards are not applicable in France.</p> <p>However, as you know, IAS 32 is being assessed jointly by IASB and FASB within the scope of the project relating to financial instruments with characteristics of equity. Moreover, the whole concept of IAS 32 remains poorly adapted to the public sector because the notion of residual capital applied to private companies is difficult to transpose to the public sector.</p>	Noted.

002	Swiss Public Sector Financial Reporting Advisory Committee	
	We agree that the transitional provisions do not provide any relief from the requirement to present comparative information.	Noted. Approach to be confirmed after consideration of key issue 2.
003	The OPEC Fund for International Development	
	No comment.	Noted.
004	Dr J Maresca	
	No comment.	Noted.
005	Fédération des Experts Comptables Européens	
	We support this approach.	Noted. Approach to be confirmed after consideration of key issue 2.
006	Public Sector Accounting Board	
	As the public sector in Canada applies accrual accounting, we hold no strong views on this point. However, while comparative information is generally valuable, it may be onerous and of less relevance to prepare such information where an effort to retrospectively present hedging outcomes is required. As such IPSASB may wish to consider specific targeted exemptions that would apply to specific situations such as hedge accounting.	Noted. Approach to be confirmed after consideration of key issue 2.
007	Financial Reporting Standards Board (New Zealand)	
	The FRSB supports the proposal not to provide any relief from retrospective application of the proposed requirements on first time application.	Noted. Approach to be confirmed after consideration of key issue 2.
008	Institute of Chartered Accountants of Scotland	
	We agree that comparative information should be provided when ED 37 is adopted for the first time by entities which previously applied IPSAS 15 'Disclosure and presentation' and by entities which adopt IPSASs for the first time. This is on the grounds that such an approach would be consistent with the requirements of IPSAS 3 'Accounting policies, changes in accounting estimates and errors' which requires the restatement of comparatives when there is a change in accounting policy.	Noted. Approach to be confirmed after consideration of key issue 2.

009	Dutch Local Government Accounting Standards Board (Commissie BVV)	
	No comment.	Noted.
011	Cour des Comptes	
	The question is not raised in France, as the standard setting is the responsibility of the Public Sector Accounting Standards Board, and as transitional provisions are set up in specific standards.	Noted.
012	Accounting Standards Board UK	
	<p>The proposed transitional arrangements appear to be unnecessarily complicated and, given IPSASB's approach of adopting the IASB standards wholesale, consider that a more straightforward approach could have been adopted. We would also argue that the burden of transition should be minimised because of the expectation that the new standards will be converged, as promptly as is practicable, with the revised IASB standards.</p> <p>We consider there should be substantial relief on transition, both for entities first adopting the new standards and for entities initially adopting accruals accounting. For example, we consider there should be transitional provisions that avoid the need for entities to review the early years of existing contracts for embedded derivatives, but instead the requirements should be applied on a prospective basis. We also consider that relief should be given from preparing and presenting comparative information.</p>	Noted. Approach to be confirmed after consideration of key issue 2.
013	Accounting Standards Board South Africa	
	<p>While some of our constituents were of the view that relief should be provided from providing comparative information for both ED 37, ED38 and ED39, the majority view is that comparative information should be provided, although relief should be considered for certain measurement considerations (see 6 below) and disclosures (consistent with the transitional provisions currently proposed).</p> <p>Public sector entities have not been provided relief in other IPSASs from presenting comparative information about property, plant and equipment, investment properties, inventories and other tangible assets that are arguably more significant for many entities in the public sector than financial instruments.</p> <p>We are of the view that without comparative information, the financial statements would be meaningless.</p>	Noted. Approach to be confirmed after consideration of key issue 2.

014	European Commission	
	No comment	Noted.
015	HoTARAC	
	<p>HoTARAC does not support this proposal. Although all jurisdictions in Australia currently apply accrual accounting, HoTARAC is of the opinion that transitional provisions requiring retrospective application may be costly and time-consuming for those entities required to convert cash-based information to accrual comparative information. This is a particularly acute issue for governments, which often have very long-term financial instruments — for example the Australian Government still has loan assets originating in the 1940's and some equity instruments in Government-owned Companies dating back to the early 1900's. HoTARAC also notes that, although IAS 32 <i>Financial Instruments: Presentation</i> does not contain any transitional provisions, the AASB did not require Australian entities to present comparative information on transition to IFRS.</p> <p>If transitional provisions remain, some HoTARAC members are of the view that the transitional provisions contained in Paragraph 57 are confusing to read and could be simplified by relocating the second, third and fourth sentences to the Basis for Conclusions.</p>	Noted. Approach to be confirmed after consideration of key issue 2.
016	Japanese Institute of Certified Public Accountants	
	We support this proposal.	Noted. Approach to be confirmed after consideration of key issue 2.
017	New South Wales Treasury	
	We generally agree with the response of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC).	Noted. Approach to be confirmed after consideration of key issue 2.
018	Association of Chartered Accountants (ACCA)	
	ACCA agrees that there should be no relief for entities initially adopting accrual accounting from preparing or presenting comparative information. It will achieve better comparability.	Noted. Approach to be confirmed after consideration of key issue 2.
019	Audit Commission UK	
	We support the proposal not to provide relief for entities initially adopting accruals accounting. No such relief is granted by the source International Accounting Standard (IAS32) and we see no reason why such an exemption should be introduced here. Entities applying accruals accounting for the first	Noted. Approach to be confirmed after consideration of key issue 2.

	time should have to fully review past transactions to identify any transactions covered by this standard and should therefore be able to present comparative information.	
020	Treasury Board of Canada	
	No comment.	Noted.
021	Office of the Comptroller of Ontario	
	No comment.	Noted.
022	CIPFA	
	We support this approach.	Noted. Approach to be confirmed after consideration of key issue 2.
023	Ministry of Finance, Quebec	
	No comment.	Noted.
024	United Nations	
	No comment.	Noted.
025	Australian Accounting Standards Board	
	Yes. The AASB supports the transitional provisions in ED 37.	Noted. Approach to be confirmed after consideration of key issue 2.
026	NIVRA	
	We agree with the proposal.	Noted. Approach to be confirmed after consideration of key issue 2.
027	Comptroller General of British Columbia	
	The province of BC prepares its Summary Financial Statements on the accrual basis of accounting; therefore, we have no comment on this question.	Noted.

	<p>contingent liability.</p> <p>(4) The financial assets/liabilities should be ascertainable by readers of the financial statements when net amounts are presented in the Statements. #47/P. 27 #54/P. 29 provides a clarification.</p> <p>(5) AG 62 P. 46 The receipt of floating payments in a "synthetic instrument" may have implications for additional interest on loans where the customer account is in overdraft position on a consolidated basis. Major overdraft transactions constitute a form of loan with interest imputed.</p> <p>(6) P. 71 The concept of a "covered call" may apply with renewable options extending into the future and revenue streams associated with the original stock purchase.</p>	<p>Noted.</p> <p>Noted. This will be considered as part of the measurement of the instrument.</p> <p>Noted.</p>
<p>013</p>	<p>Accounting Standards Board South Africa</p>	
	<p>Option to treat insurance contracts that transfer financial risk as financial instruments</p> <p>Paragraph 3 states the following: "...With the exception in (a) and (c) above, an entity may apply this Standard to other financial instruments that take the form of insurance contracts which involve the transfer of financial risk."</p> <p>In IFRS 4, insurance contracts are defined as: "A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if an uncertain future event adversely affects the policyholder."</p> <p>It further explains that insurance risk is: "Risk, other than financial risk..."</p> <p>Financial risks are explained as: "The risk of possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract."</p> <p>"Insurance contracts" that transfer financial risk meet the definition of a financial instrument even though their legal form may be that of an "insurance contract". We are therefore of the view that such contracts should be accounted for using ED 37, ED 38 and ED 39.</p> <p>AG7 could clarify that if the distinction between an insurance contract and a financial instrument is uncertain, an entity may elect to either apply ED37, ED38 and ED39 or the international or national accounting standard dealing with financial instruments.</p> <p>If these amendments are not effected by the Board we propose the following editorial amendment to paragraph 3: "...With the exception in (a) and (c) above, an entity may apply this Standard to other financial instruments <u>contracts</u> that take the form of insurance contracts which involve the transfer of financial risk." It is inappropriate to refer to a permitted application of ED 37 to financial instruments.</p> <p>Contractual and non-contractual financial guarantees</p>	<p>Noted. As there is currently no definition of an "insurance contract" in the IPSASs, it may be inappropriate to conclude that all insurance contracts that transfer financial risk are financial instruments.</p> <p>Noted. As this view was raised by a minority of respondents, this can be considered as part of any future project to address the interaction between financial instruments and insurance contracts.</p>

	<p>While we could not find any examples in local circumstances, it may be useful to include an example of a non-contractual financial guarantee (if such an example exists). If no examples exist, it may be appropriate to amend references to non-contractual financial guarantees in the AG 3 and 4.</p> <p>GENERAL</p> <p><i>ED 37 Financial Instruments: Presentation</i></p> <ol style="list-style-type: none"> 1. Paragraph 7 – The acronym “GBEs” should be added to the end of paragraph 7 to clarify that this is the meaning of the acronym which is used throughout ED37, ED38 and ED39. 2. Paragraphs 44, 45 and AG 17 – The ED deletes the text included in IAS 32 regarding income taxes. However, references to income tax remain in other paragraphs of the application guidance (AG21). This inconsistency should be clarified. 3. AG 18 – Consider emphasising that contracts may be verbal or written in this paragraph which discusses the features of contracts. 	<p>Agreed. The paragraph will be redrafted to refer to “contractual” financial guarantees.</p> <p>Noted. These two aspects will be reviewed and checked across all three exposure drafts.</p> <p>Noted. This is emphasised in the text of ED 37.</p>
<p>015</p>	<p>HoTARAC</p>	
	<p>ED 37, “Financial Instruments: Presentation”</p> <p><i>Contractual and non-contractual arrangements, statutory obligations and binding arrangements</i></p> <p>HoTARAC is of the view that the additional guidance on contractual and non-contractual/statutory arrangements is subjective and could be open to interpretation in its current form. HoTARAC considers that the IPSASB should state clearly the distinction between binding arrangements, contractual arrangements and non-contractual/statutory arrangements. Of particular importance, the IPSASB should clarify that statutory financial guarantees may not be reflected in contractual arrangements and, under those circumstances, do not qualify as financial instruments.</p>	<p>Noted. IPSAS 8 and IPSAS 11 provide explanations of binding arrangements. As IPSASs are used by entities in a variety of jurisdictions, it cannot provide a more specific definition of contractual and statutory arrangements as this may differ from jurisdiction to jurisdiction. Consequently, the IPSASB has provided the broad criteria which it believes should be present for an arrangement to be considered contractual. Based on the initial consultation with stakeholders, it was indicated that in some jurisdictions, arrangements arise from legislation, as public sector entities are precluded from entering into commercial contracts, but are in substance contractual in nature.</p> <p>For this reason, the IPSASB cannot explicitly</p>

	<p><i>Equity Instruments (A G23-A G24)</i></p> <p>The IPSASB needs to clarify under what circumstances designated transfers are equity instruments and whether equity instruments must be issued for the transfer to qualify for recognition as contributions by owners. The IPSASB could consider guidance provided by the AASB in Australian Interpretation 1038 <i>Contributions by Owners Made to Wholly-owned Public Sector Entities</i>, where “the issuance of equity instruments in relation to a transfer is not essential for the transfer to qualify for recognition as contributions by owners...” (Interpretation 1038 Paragraph 23).</p>	<p>state that all financial guarantees that arise from legislation are non-contractual.</p> <p>Agreed. This sentence will be added to AG24.</p>
<p>017</p>	<p>New South Wales Treasury</p>	
	<p>ED 37, “Financial Instruments: Presentation”</p> <ul style="list-style-type: none"> • We have a number of concerns about the IPSASB’s proposed clarification of the contractual / statutory distinction. Given this, we question whether it is premature to clarify the distinction between contractual and statutory obligations. We would prefer that the IPSASB deferred considering this until after the separate project examining non contractual items with characteristics of financial instruments. • We are also not sure the distinction between contractual and statutory is clear in the Application Guidance. For example, BC9 implies that ‘government orders’ may in substance be regarded as ‘contracts’. However, we believe that if an Order is issued under an Act, then it is statutory by definition. This needs to be clarified. Otherwise, ED 37 is changing paragraph AG12 of IAS 32 <i>Financial Statements: Presentation</i> without justification. • We do not agree that an implicit guarantee is contractual (as can be inferred in para AG4). Otherwise it could be argued that Government implicitly guarantees many things (as the party of last resort) even though there is no present obligation. • It is possible that legislation may actually issue the guarantee. If this is the case, the guarantee should be regarded as statutory and excluded from the scope of the Standard. This does not appear to be contemplated. The example in para AG4 contemplates the opposite. But, for completeness, an example should be included or referred to where legislation grants the guarantee. • The definition of a ‘contract’ may be problematic as it may not be straightforward to determine whether non-exchange arrangements are ‘enforceable’. There is substantial case law regarding this and the definition of a contract. Therefore, we are uncertain whether the additional guidance 	<p>Noted. As part of the initial consultation on the project it was noted that the definition of “contractual” arrangements is critical to understanding the scope of financial instruments, particularly in relation to those transactions arising from IPSAS 23.</p> <p>Based on consultation with stakeholders, it was noted that in some jurisdictions, transactions may arise from legislation or statute, but in substance have the key features of a contractual arrangement.</p> <p>This paragraph envisages a scenario where government has actually issued a guarantee in favour of holders of a specific instrument or participants in a scheme. It is acknowledged that governments are required to act as lenders of last resort; this does however not in itself give rise to an obligation until the actual guarantee is issued.</p> <p>This enforceability may differ from jurisdiction to jurisdiction. If enforceability of certain arrangements is questionable, it may indicate that a contractual arrangement does</p>

	<p>resolves or clarifies this issue in a meaningful way.</p> <ul style="list-style-type: none"> We note that a different approach is being taken for ‘classification’ compared to ‘recognition and measurement’. This should be made explicit and the reason given, to avoid confusion. That is, for initial recognition and measurement, IPSAS 23 on non exchange revenue applies to both contractual and non contractual transactions; and the ED on financial instruments only applies to subsequent measurement. In contrast, for classification, both IPSAS 23 <i>and</i> the ED on financial instruments apply to determine whether in substance a contractual non-exchange revenue transaction is a liability or equity instrument. As mentioned in the HoTARAC submission, the IPSASB could consider Australian Interpretation 1038 on contributions by owners, in terms of the section on ‘equity instruments’. For example, in the public sector in Australia, often the transferee does not issue equity instruments or is not a party to a formal agreement establishing a financial interest in the net assets. In that case, formal designation by the transferor (or parent of the transferor) that the transfer of assets / liabilities is to be added to the transferee’s capital is necessary to identify contributions by owners (Interpretation 1038, para 8(c)). In these circumstances, designation is the determining factor for classification as contribution by owners. Such designation reflects a policy decision by the Government (as Interpretation 1038 discusses at paragraphs 25-30). <p>Therefore, in Australia, “...the issuance of equity instruments in relation to a transfer is not essential for the transfer to qualify for recognition as contributions by owners...” (Interpretation 1038, para 24).</p> <p>In contrast, the IPSASB seems to be defining ‘equity instrument’ to include ‘designated transfers’, as referred to above. We do not believe that this is necessary and, by being misleading, in fact may have some unintended consequences.</p>	<p>not exist.</p> <p>EDs 37, 38 and 39 are only applicable to contractual arrangements. IPSAS 23 however applies to both contractual and non-contractual arrangements. Consequently, IPSAS 23 and the related requirements on financial instruments are applied to contractual non-exchange transactions. This issue has also been raised by respondents as part of their comment on ED38,</p> <p>Agreed. This clarification will be added to AG24.</p>
<p>024</p>	<p>United Nations</p>	
	<p>Application to assessed contributions receivables</p> <p>2 When attempting to apply the draft Standards to a United Nations system specific issue – the measurement of an ‘assessed contributions receivable’ - two areas of uncertainty were identified. The two areas are:</p> <ul style="list-style-type: none"> <i>Scope:</i> Extent of application of the scope exclusion applicable to rights and obligations arising from IPSAS 23 (paragraph 2(j) in ED 38). <i>Definitions:</i> Commentary to distinguish between contractual and non-contractual as applied to the definition of a financial instrument and contributing definitions of financial assets and financial liabilities (paragraph 11 and AG18 in ED 37). <p>3 Further information, including suggested amendments to improve the Standards and to clarify their</p>	

application to this specific issue, are provided below.

ED 37: Definitions exclude non-contractual

6 The definition of ‘financial instrument’ and the contributing definitions of ‘financial asset’ and ‘financial liability’ are restricted to arrangements that are contractual in nature (See paragraph 9 of ED 37, which defines financial instrument, financial asset and financial liability. EDs 38 and 39 use the same definitions. This is stated explicitly in paragraph 9 of ED 38. For clarity, the same statement needs to be included in ED 39.)

This reflects a Board decision to defer consideration of items that arise from non-contractual arrangements, as explained in ED 39’s Basis for Conclusions:

BC2. This project on financial instruments forms part of the IPSASB’s convergence program which aims to converge IPSASs with International Financial Reporting Standards (IFRSs). The IPSASB acknowledges that there are other aspects of financial instruments, insofar as they relate to the public sector, which are not addressed in IAS 39. These will be addressed by future projects of the IPSASB. In particular, the IPSASB acknowledges that future projects are required to address:

- Certain transactions undertaken by central banks; and
- Receivables and payables that arise from arrangements that are, in substance, similar to, and have the same economic effect as, financial instruments, but are not contractual in nature (ED 38 Basis for conclusions, page 121. The same wording is included in the Basis for Conclusions of ED 37, see page 57 of ED 38).

7 In terms of explaining the difference between arrangements that are contractual and those that are non-contractual, paragraph 11 (ED 37) states that:

In this Standard, ‘contract’ and ‘contractual’ refer to an agreement between two or more parties that has **clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law.** Contracts, and thus financial instruments, may take a variety of forms and need not be in writing. [Emphasis added.]

8 Paragraphs AG17 to AG18 provide further guidance as follows:

AG17 Assets and liabilities in the public sector arise out of both contractual and non-contractual arrangements. Assets and liabilities arising out of non-contractual arrangements do not meet the definition of a financial asset or a financial liability.

AG18. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a ‘contract’ for purposes of this Standard. Contracts, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

<ul style="list-style-type: none"> • Contracts involve willing parties entering into an arrangement; • The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party. For example, a donor funding arrangement creates an obligation for the donor to transfer resources to the recipient in terms of the agreement concluded, and establishes the right of the recipient to receive those resources. These types of arrangements may be contractual even though the recipient did not provide equal consideration in return i.e. the arrangement does not result in equal performance by the parties; and. • The remedy for non-performance is enforceable by law. [Emphasis added.] <p>9 The shift from ‘little if any discretion to avoid’ in paragraph 11 to ‘remedy...enforceable by law’ in AG 18 introduces some uncertainty in applying the distinction. While it seems likely that receivables arising from assessed contributions are not intended to be considered ‘contractual,’ it is not clear how the present wording in Standard would classify such receivables – contractual or non-contractual. This issue is discussed in more detail below.</p> <p><i>Assessed contributions: Contractual or non-contractual?</i></p> <p>10 The United Nations and other UN System organizations receive ‘assessed contributions’ revenue. The question raised by ED 37’s explanation of the differences between contractual and non-contractual arrangements is whether or not receivables arising from assessed contributions are contractual in nature.</p> <p>11 Assessed contributions are ‘binding arrangements,’ which involve legal obligations for Member States. A Member States’ signature on the United Nations Charter involves a commitment to provide funding to the United Nations. That commitment confers a legal obligation under international law. There are consequences for non-payment (loss of voting rights), but international organizations do not attempt to enforce payment through legal channels. Are such arrangements contractual?</p> <p>12 Applying the criteria in paragraph 11 of ED 37 arguably the answer would be ‘no, not contractual,’ because international organizations do not pursue payment through legal channels. Similarly applying the criteria in paragraph AG18 of ED 37 the answer appears likely to be ‘no, not contractual’ because the remedy for non-performance is not enforceable by law. But the consequences of non-performance are serious enough to ensure that most Member States most of the time will pay their outstanding assessments. In the United Nations case a Member State can lose its right to vote in the General Assembly.</p> <p>13 Despite the lack of certainty when attempting to apply the draft Standard’s words to this specific issue, our view is that receivables from assessed contributions are an example of a non-contractual arrangement. To clarify AG 18 and the application of these draft Standards to assessed contributions receivables, the following change to AG18’s wording is recommended (change under-lined). It is further recommended that other examples of ‘non-contractual’ arrangements be</p>	<p>The fact that legal remedy exists may indicate that the arrangement is contractual. The fact that these channels are not currently exploited is irrelevant. Similar circumstances exist for other public sector arrangements. For example, local authorities provide services to consumers, who often do not settle their outstanding accounts. Local authorities may have legal remedy to enforce payment, but may not enforce this legal remedy because they do not want to cause undue economic hardship. This does not make the arrangement non-contractual.</p>
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included in the application guidance in order to better explain this critical distinction.

Recommended change to AG 18

AG18. An entity considers the substance rather than the legal form of an arrangement in determining whether it is a ‘contract’ for purposes of this Standard. Contracts, for the purposes of this Standard, are generally evidenced by the following (although this may differ from jurisdiction to jurisdiction):

- Contracts involve willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party [~~delete narrative and include below~~]; and.
- The remedy for non-performance is enforceable by law.

Equal performance not required: Commercial contracts ordinarily create rights and obligations that result in equal performance by each party. This will not necessarily be the case for public sector contracts. For example, a donor funding arrangement creates an obligation for the donor to transfer resources to the recipient in terms of the agreement concluded, and establishes the right of the recipient to receive those resources. These types of arrangements may be contractual even though the recipient did not provide equal consideration in return i.e. the arrangement does not result in equal performance by the parties.

Examples of non-contractual arrangements: Examples of non-contractual arrangements include: Member States obligations under international treaties to provide assessed contributions funding to international organizations; [other examples]

Summary table

14 Table 1 in Appendix 2 provides an overview of the two areas of uncertainty described above and shows how they impact on the draft Standards’ implications for rights and obligations arising from IPSAS 23, illustrating with three specific examples of non-exchange transactions.

As the IPSASs are provided for use by entities in various jurisdictions, providing specific examples of contractual and non-contractual arrangements may not be appropriate as the interpretation of contractual and non-contractual may differ from jurisdiction to jurisdiction.

As the initial brief was to deal with contractual instruments, it may be more appropriate to deal with these examples as part of the future project on non-contractual instruments rather than to deal with these as part of this exposure draft

Rights and obligations arising from:	Definition of financial instruments – must involve a contract	Scope exclusion – Initial recognition	Scope exclusion – Initial measurement	Scope exclusion – Subsequent measurement
1. IPSAS 23	Clear: Some within definition and some not	Excluded	Excluded	Unclear – probably included (Recommend <u>clarify</u> paragraph 2(j))
1(a) Taxation	Excluded from definition (non-contractual)	Not applicable (already excluded by the definition of financial instruments)	Not applicable (already excluded by the definition of financial instruments)	Not applicable (already excluded by the definition of financial instruments)
1(b) Funding agreements (Voluntary contributions)	Not excluded from definition (contractual)	Excluded	Excluded	Unclear – probably included (Recommend <u>clarify</u> paragraph 2(j))
1(c) International treaty (Assessed contributions)	Unclear: Probably excluded from definition <u>Recommend:</u> Clarify by providing as an example in AG18	Excluded	Excluded	Unclear (Probably excluded on the basis that the arrangement is <u>not contractual</u>)

**SECTION C – ANALYSIS OF SUBMISSIONS RECEIVED ON ED 38,
“FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT”**

Section C of the analysis of submissions received on ED 38, “Financial Instruments: Recognition and Measurement”, considers respondents’ comments on the specific matters for comment in ED 38 as well as other issues raised.

This analysis is provided in two parts. Part I provides Staff’s classification of responses to the specific matters raised in ED 38; summarizes key themes emerging from other issues raised by respondents; and highlights key issues to be considered by the Board. Part II provides respondents’ detailed comments as well as Staff’s proposed course of action (which may include deliberation of certain issues at the September 2009 meeting of the IPSASB).

**Part I – Summarised analysis of respondents’ views on ED 38,
“Financial Instruments: Recognition and Measurement”**

The IPSASB requested views on the following specific matters for comment:

- Treatment of concessionary loans and the distinction between concessionary loans and the waiver of debt;
- Measurement of financial guarantees; and
- Proposed transitional provisions for the initial adoption of ED 38.

An analysis of respondents’ views on these issues is provided in the sections that follow.

Specific matter for comment 1 – Treatment of concessionary loans

Background

The IPSASB requested views on the following specific matter for comment:

Do you agree with the Application Guidance relating to the issuer of concessionary loans (paragraphs AG83 to AG89), in particular:

- (a) The requirement that any difference between the transaction price of the loan and fair value of the loan at initial recognition should be expensed;
- (b) The distinction between concessionary loans and the waiver of debt?

If you do not agree with the Application Guidance please give your preferred alternative approach and state your reasons.

Analysis

Staff’s classification of responses is included at Table I

Of the 26 respondents, only 21 expressed a view on specific matter for comment 1.

For part (a) of specific matter for comment 1, 13 out of 21 (62%) respondents agreed with the approach, while 8 out of 21 (38%) disagreed with the approach. For part (b) 17 out of 21 (85%) respondents agreed with the approach, while the remaining 4 expressed no clear view.

Those respondents who disagreed with the approach proposed for the treatment of concessionary loans noted the following reasons for their disagreement:

- The use of a market related rate for discounting future cash receipts is inappropriate. Some respondents suggested that the rate should be determined by using a government’s (or the individual entity’s) cost of borrowing. Other respondents suggested that concessionary loans should be measured initially at historical cost;
- The fair value, particularly the market rate determination, of concessionary loans may require a significant degree of judgement and uncertainty;
- The recognition of a loss (or revenue) on the basis of an imputed interest rate is inappropriate; and.
- The expensing of the difference between the loan proceeds and the fair value of concessionary loans granted is inappropriate. Some respondents argue that the expense should be recognised over the period of the loan rather than as an up-front cost.

Those respondents who agreed with the proposals did not always provide reasons for supporting the proposed treatment of concessionary loans. Those that did provide reasons for their agreement noted that the requirements are consistent with IFRSs as well as the statistical bases of reporting.

Table I – Staff’s analysis of responses to specific matter for comment 1 (Concessionary loans)

Respondent no.	Analysis	Total
005, 006, 007, 008, 011, 012, 013, 015, 017, 018, 019, 022, 025	Agree to both: (a) recognition of off-market portion as an expense (b) distinction between waiver of debt and a concessionary loan	13
003, 014, 016, 026	<ul style="list-style-type: none"> • Disagree (a) but • Agree (b) 	4
001, 002, 009, 027	<ul style="list-style-type: none"> • Disagree with (a); and • No view provided on (b) 	4
		21

Key issues requiring consideration by the Board

Key issue 1(a): Use of fair value as a measurement basis for concessionary loans

In ED 38, the IPSASB proposed that concessionary loans should be measured initially at fair value (consistent with other financial assets and financial liabilities). Fair value is determined by discounting the contractual cash flows of the instrument using a market related rate of interest. A market related rate of interest for the loan is determined as the

rate for a similar instrument i.e., a debt instrument, with similar terms and conditions, denominated in the same currency and with the same credit risk profile.

Many respondents considered that fair value is an inappropriate measurement basis for concessionary loans. They noted that using fair value considers how the market would price a similar debt instrument, and ignores the fact that governments or the providers of concessionary loans may borrow at a different rate. They also noted that the determination of a market rate, especially where there is no active market, may be subjective, for example, the determination of a market rate for concessionary loans granted to entities in developing economies.

Staff is of the view that fair value is an appropriate measurement basis for concessionary loans as it provides users with useful information about the subsidy provided or received, which often represents the high credit risk associated with the loan. Consequently, the rate used to initially discount concessionary loans should reflect a market related rate of a similar instrument with the same terms and conditions, same risk profile and denominated in the same currency. This is the only rate that will result in concessionary loans being measured at “fair value”. If the rate is determined, for example, by using an entity’s or government’s own cost of borrowing as a basis, it will not result in “fair value” but an “entity specific value”.

While Staff acknowledges that the determination of fair value may be subjective, it is not a sufficient reason to exclude the use of fair value as a measurement basis. The disclosures required in paragraphs 28 to 35 of ED 39 and IPSAS 1 require entities to provide detailed disclosures of how fair value was determined during the reporting period, significant assumptions used, as well the existence of estimation uncertainties and their potential effect on the reported performance and financial position.

In general, respondents who disagreed with the use of fair value as a measurement basis for concessionary loans proposed that such loans should be measured initially at their transaction price (nominal value). Some proposed that they should be recognised subsequently at amortised cost, with a portion of the interest charge being reflected as a subsidy/grant, while others proposed that the subsidy/grant element should be reflected as a disclosure only.

Action Required

Members are asked to reaffirm:

- (a) The use of fair value as a measurement basis for concessionary loans granted or received; and
- (b) The methodology used to determine a market-related rate of interest.

Key issue 1(b): Treatment of the off-market portion of a concessionary loan granted

The IPSASB proposed that the off-market portion of a concessionary loan should be treated as follows:

- For concessionary loans granted, the off-market portion of the loan should be recognised as an expense in surplus or deficit on initial recognition of the loan.
- For concessionary loans received, the off-market portion of the loan should be recognised using the principles in IPSAS 23 on “Revenue from Non-Exchange Transactions (Taxes and Transfers)”, which would result in the off-market portion of the loan being treated as a contribution from owners, a liability arising from a present obligation relating to conditions imposed on the transfer, or as non-exchange revenue.

Some respondents noted specific concerns around the treatment of the off-market portion of concessionary loans received and the interaction between IPSAS 23 and ED 38. This issue is addressed in the “Other matters” section of this memo. Others expressed reservations about the proposed treatment of the off-market portion of concessionary loans at initial recognition.

Certain respondents considered that the off-market portion of a concessionary loan granted is akin to a “subsidy” or “grant” and should be accounted for on the same basis as other transfers or subsidies paid. Others considered that the expense should be recognized over the period of the loan as the borrower satisfies certain conditions over the entire period of the loan, and thus the off-market portion should be recognized as and when those conditions are satisfied on an ongoing basis.

Effectively, the off-market portion of a concessionary loan granted does represent a subsidy that is granted to the borrower. Often, the subsidy reflects the fact that the borrower would not have been able to obtain the loan either because of the borrower’s high credit risk or because of the nature of the loan.

Staff acknowledges that two different interpretations exist:

- Interpretation 1: The “subsidy” is granted when the loan is initially granted to the borrower and should be recognized as an expense at initial recognition; or
- Interpretation 2: The “subsidy” is provided on an ongoing basis over the period of the loan and should be treated as a prepayment. The prepayment is then reduced either on a time proportion basis or when the loan conditions are satisfied.

Action Required

Members are asked to reaffirm that the “subsidy” is granted when the loan is initially granted to the borrower and should be recognized as an expense at initial recognition (Interpretation 1).

However, if the Board concludes that Interpretation 2 is appropriate, it should consider whether the text of ED 38 should be amended to state that the off-market portion of a concessionary loan granted is recognized:

- (1) On a time proportion basis;
- (2) When the conditions of the loan are satisfied (which to some extent, provides symmetry with the treatment of non-exchange revenue under IPAS 23); or

(3) Using the elements of financial statements outlined in IPSAS 1, “Presentation of Financial Statements”.

Staff also notes that the Basis for Conclusions could be improved by providing the Board’s rationale for using fair value as a measurement basis for concessionary loans (including rejecting the view that an entity’s own borrowing rate should be used as a measurement basis) as well as the Board’s reasoning and conclusion on the issue outlined above.

Specific matter for comment 2 – Treatment of financial guarantees

Background

The IPSASB requested views on the following specific matters for comment:

Do you agree with the Application Guidance relating to financial guarantees provided for nil or nominal consideration (paragraphs AG91 to AG96), in particular that entities should apply a mathematical valuation technique to obtain a fair value where this produces a reliable measure of fair value? Alternatively, where a fair value cannot be obtained through observation of an active market, do you think that initial recognition should be in accordance with IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets.”

Please state your reasons.

Analysis

Staff’s classification of responses is included at Table II. Of the 26 respondents, 20 expressed a view on the treatment of financial guarantees. Of those respondents, 13 out of 20 (65%) agreed with the proposed treatment of financial guarantees but indicated their reservations about referring to the valuation hierarchy as Level 1, Level 2 and Level 3. A similar level descriptor is used in ED 39 with different meanings. One respondent agreed with the treatment of financial guarantees using a price in an active market, but did not agree with the use of a valuation technique. Most respondents who agreed with the proposed treatment of financial guarantees noted that the requirements are consistent with IAS 39, while some noted that for practical purposes, the reference to IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” is appropriate.

A total of 7 out of 20 (35%) of respondents disagreed with the approach. The reasons cited for disagreement with the approach are as follows:

- Financial guarantees are not complex instruments and therefore the approach is overly complex.
- The valuation hierarchy is appropriate, but should be applied on a case-by-case basis rather than being mandatory for all financial guarantees.
- The valuation hierarchy is inconsistent with IAS 39. “Reliable measurement” is not a criterion for the measurement of financial instruments. The use of IPSAS 19 in the absence of a reliable measure of fair value is therefore inappropriate.
- The valuation hierarchy is inappropriate as a reliable measure of fair value may not be available and cannot be determined (either because the fair value may not be reliable or because significant costs will be incurred) and therefore IPSAS 19 should be used.

Table II – Staff’s analysis of responses to specific matter for comment 2 (Financial guarantees)

Respondent no.	Analysis	Total
005, 006, 007, 008, 016, 022	Agree.	6
014	Agree with the valuation using an active market, do not agree with use of mathematical technique.	1
012, 013, 015, 017, 018, 019	Agree, but have reservations about the use of Level 1, Level 2, Level 3 and the impact of ED39.	6
001, 025, 026	Disagree, valuation hierarchy inappropriate. IPSAS 19 should be the only approach.	3
025	Disagree, no default to IPSAS 19.	1
002, 011	Disagree, the hierarchy should be applied on a case by case basis.	2
021	Disagree, accounting too complex for the nature of the transaction.	1
		20

Key issues requiring consideration by the Board

Key Issue 2: Treatment of financial guarantees

In developing guidance on the recognition and measurement of financial guarantee contracts, the Board concluded that financial guarantee contracts should be recognised initially at fair value. It concluded that fair value should be determined using a three level hierarchy:

1. An entity first assesses whether fair value can be determined based on the price in an active market (Level 1).
2. If a price cannot be determined in an active market, fair value is determined using a valuation technique (Level 2).
3. Where fair value cannot be measured reliably using either a price in an active market or a valuation technique, an entity recognises and/or discloses an obligation arising from the financial guarantee using IPSAS 19 (Level 3).

In the Basis for Conclusions it was acknowledged that there are significant difficulties in practice in determining the fair value of financial guarantee contracts issued through non-exchange transactions. It may be costly to measure financial guarantee contracts using a valuation technique and may not provide useful information to the users of the financial statements.

Under IAS 39, financial guarantee contracts (that are within the scope of IAS 39) can only be measured at fair value on initial recognition. Fair value is determined on the basis

of a three-level hierarchy, i.e. price in an active market (Level 1), valuation using observable market inputs (Level 2) and valuation using unobservable market inputs (Level 3). IPSAS 19 is only used for the subsequent measurement of financial guarantee contracts.

Staff is of the view that the three levels described in AG94 and AG96 are not consistent with the three level hierarchy envisaged in paragraph 31 to 32 of ED 39.

Some of the options proposed by respondents are as follows:

- Approach 1 – Retain the current hierarchy and delete references to “Level 1”, “Level 2” and “Level 3”.
- Approach 2 – Retain the current hierarchy, but allow entities to apply it on a case-by-case basis, i.e. entities can choose which level of the hierarchy is most appropriate for the financial guarantee contract being valued.
- Approach 3 – Remove IPSAS 19 from the valuation hierarchy as it is not aligned with IAS 39.
- Approach 4 – Remove “Level 2” from the hierarchy as it is not likely that entities can measure fair value reliably using a valuation technique.
- Approach 5 – Require entities to measure all financial guarantee contracts issued by way of a non-exchange transaction using IPSAS 19.

Staff is of the view that Approach 1 should be adopted as most respondents agreed with the approach proposed in the exposure draft, but that the references to “Level 1”, “Level 2” and “Level 3” are deleted.

Action Required

Members are asked to reaffirm the approach for measuring financial guarantee contracts and to confirm the Staff views that references to “Level 1”, “Level 2” and “Level 3” should be deleted.

Specific matter for comment 3 – Transitional provisions

Background

The IPSASB requested views on the following specific matter for comment:

Do you agree with the transitional provisions in paragraphs 114 to 123? If you do not agree with these transitional provisions please indicate further transitional provisions that are necessary, or those transitional provisions that are unnecessary. Please state your reasons.

Analysis

Staff’s classification of responses is included at Table III. A total of 19 respondents provided comments on the transitional provisions; 12 respondents (63%) agreed with the transitional provisions, 4 respondents (21%) disagreed with the approach and 3 respondents (16%) expressed no clear view.

Key issue 3: Transitional provisions for ED 38

Those respondents who disagreed with the transitional provisions cited the following reasons:

- The transitional provisions are overly complex and should be simplified, especially since the standards will be adopted wholesale.
- Relief should be provided from the preparation of comparative information.

Some respondents who agreed with the transitional provisions considered that relief could be provided in additional areas, for example, the determination of effective interest rates, retrospective impairment testing and retrospective testing of hedging outcomes on initial adoption of the ED38.

Table III – Summary of responses to specific matter for comment 3 (Transitional provisions)

	Specific matter for comment 3		
	Agree	Disagree	No view
Respondent number	002, 005, 006, 007, 008, 013, 014, 016, 019, 022, 025, 026	012, 015, 017, 018	001, 011, 027
	12	4	3

Staff is of the view that the transitional provisions proposed in ED 38 should be retained.

Action Required

Members are requested to reaffirm the transitional provisions in ED 38.

Other matters

Background

Some respondents highlighted issues about other aspects of ED 38. In particular, respondents expressed concerns about the interaction between IPSAS 23, “Revenue from Non-Exchange Transactions (Taxes and Transfers)” and ED 38. The following key issues were noted:

- (a) The initial measurement of assets and liabilities under IPSAS 23 is inconsistent with ED 38. In particular, ED 38 requires entities to consider the effect of transaction costs on initial recognition (if the instrument is subsequently measured at amortised cost), where IPSAS 23 does not address this aspect of initial measurement.
- (b) The recognition criteria of IPSAS 23 and ED 38 are different for both assets and liabilities. ED 38 requires that assets and liabilities are recognised when entities become party to the contractual provisions of the instrument. IPSAS 23, however, requires that assets and liabilities are measured based on the probability of inflows or outflows and whether the asset or liability can be measured reliably.

In developing ED 38, the Board proposed that a financial asset and a financial liability acquired or originated as part of a non-exchange revenue transaction should be:

- Initially recognized and initially measured in accordance with IPSAS 23;
- Subsequently measured and derecognised in accordance with ED 38; and
- Disclosed in accordance with ED 39.

Key Issue 4: Measurement and recognition inconsistency between IPSAS 23 and ED 38

IPSAS 23 requires assets to be measured by an entity once it can demonstrate control of an asset and the recognition criteria have been satisfied, i.e. that the inflows are probable, and that the asset can be measured reliably. Assets acquired as part of a non-exchange revenue transaction are measured at fair value.

Under IPSAS 23, liabilities arise when an entity is required to fulfil certain obligations in relation to the receipt of resources from a non-exchange transaction. These liabilities are measured at the best estimate of the amount required to settle the obligation at the reporting date.

Using the principles in ED 38, assets and liabilities are recognised when an entity becomes a party to the contractual provisions of the instrument and they are both initially measured at fair value, plus transaction costs if the asset or liability is subsequently measured at amortised cost.

The diagram below summarises the differences in initial recognition and initial measurement:

	IPSAS 23	ED 38
<i>Assets</i>		
Initial recognition of assets	Recognised when an entity demonstrates control of an asset and: (a) Inflow of economic resources or service potential probable; and (b) The asset can be measured reliably.	Entity becomes a party to the contractual provisions of the instrument.
Initial measurement of financial assets	Fair value	Fair value, plus transaction costs if asset subsequently measured at amortised cost.
<i>Liabilities</i>		
Initial recognition of financial liabilities	When the entity has a present obligation as a result of conditions associated with the receipt of a transfer of	Entity becomes a party to the contractual provisions of the instrument.

	resources.	
Initial measurement of financial liabilities	Best estimate of the amount required to settle the obligation at reporting date.	Fair value, plus transaction costs if liability subsequently measured at amortised cost.

Initial recognition of financial assets

While the recognition requirements in IPSAS 23 differ from those in ED 38 for financial assets, a similar difference exists between IPSAS 9, “Revenue from Exchange Transactions” and ED 38.

IPSAS 9 requires that entities measure revenue at the fair value of the consideration received or receivable, using the recognition criteria for either goods or services. As part of the recognition criteria in IPSAS 9, it also requires that the inflow of economic benefits or service potential must be probable, and that a reliable measure can be made of the revenue. These criteria can be extended to apply to the receivable arising from the recognition of revenue.

Consequently, the receivable in IPSAS 9 and IPSAS 23 are both measured based on a “probability” approach (likewise in IPSAS 11 which deals with both exchange and non-exchange revenue).

Initial recognition of financial liabilities

Under IPSAS 23, a financial liability is recognised by an entity when a present obligation exists as a result of conditions imposed by external parties on a transfer of resources. Conditions impose both a performance and a return obligation.

For the present obligation recognised under IPSAS 23 to be a financial liability, the recipient must intend to settle the obligation through the transfer of cash or another financial asset to the transferor rather than through executing the specific obligations imposed on the transfer of resources. This requires that an entity analyze both at initial recognition and in subsequent reporting periods what its intention is with regards to fulfilling these obligations.

For example, an entity receives a transfer of cash amounting to CU5 million for the construction of 100 houses. The transferor specifically states that if it does not utilize the CU5 million on the construction of 100 houses, the funding should be returned (including any unspent monies at the end of the contract). The entity therefore has an obligation based on the conditions of the contract. At initial recognition, the entity has every intention of constructing 100 houses and therefore concludes that it will fulfil the obligation through the construction of 100 houses rather than through returning the cash to the transferor. At the end of the contract the entity has unspent funding that must be returned to the transferor. At this point, because the obligation will be settled through the delivery of cash to another entity, the obligation becomes a financial liability.

There may also be instances when a financial liability may arise from restrictions, which would not give rise to a liability using the principles in ED 38.

Measurement inconsistency between IPSAS 23 and ED38

Financial assets

IPSAS 23 requires assets to be measured at fair value on initial recognition. ED 38 requires an asset to be measured initially at fair value, plus transaction costs, if the instrument is subsequently measured at amortised cost.

The effect of the treatment proposed by the IPSASB in ED 38 is that transaction costs on financial assets that are acquired or originated as part of a non-exchange revenue transaction are ignored. This ultimately leads to financial assets being measured using two “amortised cost” methodologies depending on whether they were acquired or originated through an exchange or non-exchange transaction, i.e. amortised cost plus transaction costs for an exchange transaction and amortised cost excluding transaction costs for non-exchange transactions.

Financial liabilities

Where present obligations are recognised using IPSAS 23 they are measured, both initially and subsequently, at the best estimate of the amount required to settle the obligation at reporting date. This is different to ED 38 where financial liabilities are measured initially at fair value and subsequently either at fair value or amortised cost. An “estimate” based approach is different to the “contractual cash flows” approach envisaged under ED 38.

Staff View

Staff is of view that two approaches exist for dealing with financial assets and financial liabilities arising from non-exchange revenue transactions.

- (a) Approach 1: Retain approach as drafted in ED 38, i.e. the initial recognition and initial measurement of financial assets and financial liabilities is dealt with in IPSAS 23, but clarify existing wording in IPSAS 23 through consequential amendments. This might require making substantial changes to the wording in IPSAS 23, including explaining when an asset or a liability is a financial instrument.
- (b) Approach 2: All financial assets and financial liabilities should be accounted for in accordance with ED 38, i.e. scope out the initial recognition and initial measurement of financial assets and their resulting liabilities from ED 38. This approach would still require that certain consequential amendments be made to IPSAS 23, although these may be mainly limited to explaining when an asset or a liability is a financial instrument.

Staff has reservations about excluding all financial assets and financial liabilities from the scope of IPSAS 23 as users may then not clearly understand the link between the recognition of an asset in relation to the revenue recognition process. It might also not be clear to users that if for example, it recognizes a financial asset, it does not automatically also recognize a financial liability. It is important to understand the context in which assets and liabilities arise from non-exchange transactions which may be lost if these transactions are automatically excluded from IPSAS 23.

Inconsistencies already exist between the measurement of assets using IPSAS 23 and other IPSASs such as IPSAS 12, 16 and 17. This is acknowledged in paragraph 13 and 24 of IPSAS 23 which state the following:

- 23.13 “...For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue...Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17.”
- 23.43 “Consistent with IPSAS 12, 16, and IPSAS 17, assets acquired through non-exchange transactions are measured at their fair value as at the date of acquisition”

Staff is therefore of the view that IPSAS 23 could be amended in respect of the measurement of financial assets by clarifying that an entity initially measures assets at fair value using IPSAS 23, and if the asset is a financial asset, an entity also considers the measurement paragraphs of ED 38.

For the measurement of obligations, which is a more complex issue, explanatory text could be added to IPSAS 23 outlining that obligations arising from non-exchange revenue transactions may result in either financial liabilities that are measured using ED 38 or obligations that are measured using IPSAS 23.

<p>Action Required</p> <p>The Board is asked to confirm the approach for the initial measurement of financial assets and financial liabilities arising from non-exchange revenue transactions.</p>

PART II - Analysis of comment received on the approach adopted by the IPSASB

ED 38, “Financial Instruments: Recognition and Measurement”

Specific matter for comment 1:

Do you agree with the Application Guidance relating to the issuer of concessionary loans (paragraphs AG83 to AG89), in particular:

- (a) The requirement that any difference between the transaction price of the loan and fair value of the loan at initial recognition should be expensed;*
- (b) The distinction between concessionary loans and the waiver of debt?*

If you do not agree with the Application Guidance please give your preferred alternative approach and state your reasons.

001	Comité des Normes de Comptabilité Publique	
	<p>(a) We disagree that the discounts linked to granted concessionary loans be recognised in surplus or deficit. On the other hand, we think that this information should be disclosed.</p> <p>(b) These are our reasons for non agreement:</p> <ul style="list-style-type: none"> • Given the specificity of the public sector, we believe that the market rate is not the appropriate benchmark to determine future discounted cash flows, since the public funding rates are below those of the market. We believe however that considerations should be conducted to find out what are the criteria to be taken into account in setting the discount rate to be used, and in particular the duration and rate of funding, the share of revenue tax, etc. • Calculating a discount raises a more general question of discounting itself per se, and in this case for initial recognition of concessionary loans. Even if the amount of the discount can help to understand the financial statements, recording a loss on the basis of future discounted cash flows and therefore forecasting future revenues is debatable. 	<p>Noted. However the use of market rates is consistent with the principle of initially recognizing financial instruments at fair value. If a rate other than a market rate is used, the fair value measurement basis is compromised.</p> <p>To overcome this concern, appropriate disclosure can be made of the rate used, how it was determined etc. in accordance with the disclosures in IPSAS 1 around key estimation uncertainties, as well as the other disclosures required by ED 39. Information about the subsidies provided or grants received by entities provides useful information to the users of the financial statements and provides a quantitative analysis of the risks public sector entities are exposed to by providing concessionary loans.</p>
002	Swiss Public Sector Financial Reporting Advisory Committee	
	<p>We are of the view that the distinction between concessionary loans and transfers is not sufficiently clear. Both concessionary loans and grants are often subject to conditions which require a payback. The term used is sometimes not a valid indicator of the economic substance and the appropriate accounting treatment. We are of the view that instruments that are called loans but do not lead to a probable payback</p>	<p>The guidance in AG87 refers entities to IPSAS 23 that discuss transfers. However, Staff notes that there may be scope to include a very brief discussion in the</p>

	<p>should be treated as transfers. For transfers, however, IPSAS 23 and not ED 38 is applicable. We propose a clarification in AG83 or AG84, similar to the distinction between a concessionary loan and the waiver of a debt.</p> <p><i>Further issues</i></p> <p>There is an issue concerning the measurement of concessionary loans. According to ED 38 the interest difference compared with market rates must be amortised and the asset correspondingly value immediately adjusted. For the public sector in Switzerland this does not appear meaningful at any rate. We propose that as an alternative such loans may be measured at nominal amount and that each year the interest payment may be recorded in income as a transfer expense, the reason being in particular that such loans are not held for trading purposes, but are held throughout their duration until maturity. There is also no market for them. In addition in the public sector in Switzerland the emphasis is primarily on the income statement and not the balance sheet (in contrast to IFRS, FER).</p>	<p>Application Guidance on this issue. Its context will, however, be limited to whether transfers meet the definition of a financial instrument. Also note the discussion on the settlement of obligations at key issue 4 in agenda paper 6.3.</p> <p>The substance of the concessionary loan is essentially analysed into its component parts on initial recognition, which is demonstrated by the loan being recognized at fair value and the off-market portion being reflected as a subsidy granted or received.</p> <p>The accounting treatment proposed by Respondent 002 is not in accordance with the current principles of IAS 39. As this project is currently a convergence project, if this measurement approach is adopted, it would have to be outside the scope of the current ED 38 and convergence project.</p> <p>Noted. This issue is raised as key issue 1 to be considered by the Board at the September meeting.</p>
<p>003</p>	<p>The OPEC Fund for International Development</p>	
	<p>We agree with your distinction between concessionary loans and waiver of debt.</p> <p>However, we do not agree with the proposal in the Application Guidance to expense the difference between the transaction price and fair value of concessionary loan at initial recognition. We discuss the basis of our objection in the paragraphs below.</p> <p><u>Consistency with accounting principles</u></p> <p>ED 38 paragraph BC8 states: “the issuer of a concessionary loan accounts for the off-market portion of the loan as an expense in the year the loan is issued.”</p> <p>To qualify for recognition in the income statement, an expense (The criteria for expense recognition are widely discussed in accounting literature. See for example IPSAS No. 1, Presentation of financial statements paragraph 7; FASB, Statement of Accounting Concepts No. 6 paragraphs 80-81; IASB Framework for the preparation and presentation of financial statements, paragraphs 94-98; UK ASB</p>	<p>Noted.</p> <p>Noted. This issue is raised as key issue 1 to be considered by the Board at the September meeting.</p>

Statement of principles for financial reporting paragraphs 4.39-4.40) :

1. should arise from one or more of the following:
 - 1.1. outflows relating to an entity’s ongoing or central operation e.g. wages
 - 1.2. depletion of assets e.g. depreciation of fixed assets
 - 1.3. incurrence of liability other than those relating to acquisition of assets and distribution to equity holders e.g. warranties and accruals;
 - 1.4. losses e.g. loss of facilities as a result of earthquake
2. should result in a decrease in the entity’s equity; and
3. should be capable of being reliably measured

The proposed accounting treatment of imputed interest expense does not satisfy criteria 1.1-1.4 listed above.

As shown in the table below which is based on ED 38 Example 4, net income over the loan period is \$76.5 million whether the nominal or effective interest rate method is applied i.e. imputed interest has no impact on the entity’s equity. Thus, criterion No. 2 above is equally not satisfied.

ED 38 EAMPLE 4: IE 40-42				
Year	Loan		Loan Interest Revenue	
	Repayment	Balance	Nominal	Effective
	CU	CU	CU	CU
0	-	250,000,000	-	(50,654,520)
1	-	250,000,000	15,000,000	22,924,730
2	-	250,000,000	15,000,000	23,836,074
3	-	250,000,000	15,000,000	24,852,223
4	75,000,000	175,000,000	15,000,000	25,985,228
5	75,000,000	100,000,000	10,500,000	18,623,530
6	100,000,000	-	6,000,000	10,932,735
	250,000,000		76,500,000	76,500,000

The analysis in the above table further reveals lack of comparability in financial statements (Year 0 and other years) as a result of inconsistent measurement basis (fair value in year 0 and amortised cost in other years). Although AG89 leaves open the choice of basis for measurement subsequent to initial recognition, the examples (e.g. IE40-42) in fact endorse the amortised cost measurement (the amount of \$50,654,520 expensed in Year 0 is recognised as revenue over years 1 to 5).

Determination of “market interest rate”

ED 38 defines the fair value of a concessionary loan as the present value of future contractual payments

The use of market rates is consistent with the principle of initially recognizing

	<p>discounted using the market related interest rate. Typically, the market interest rate is the basic or risk-free rate plus a margin which reflects the credit rating of the borrower [ED 38 AG 114 (a)(b)].</p> <p>In the advanced and some emerging economies of the world where capital market is well developed, the estimation of market interest rate is relatively straightforward. However, for entities in developing countries and the financial institutions lending to them at concessionary rates, attempts to estimate market interest rates often involve too many assumptions (These include assumptions about credit rating where the borrower is not rated and the determination of credit spread for different ratings including speculative investment rating) such that two independent persons cannot arrive at the same conclusion, therefore rendering the exercise highly subjective, the result unreliable and the financial statements incomparable across years and with those of other institutions.</p> <p>The effect of this is the reluctance of many public sector organisations to adopt the fair value standard to their concessionary loans. In this group are MFIs which are specialised institutions lending at below-market or nil interest rates to governments, mainly in developing nations.</p> <p>At OFID, our attempt to implement IAS 39 on our public sector (concessionary) loans revealed the onerous nature of the exercise and raises questions about its benefit in relation to cost apart from the other issues already identified above. Most MFIs agree that their public sector loans are not intended for sale as there is no comparable secondary market for such loans. A review of the annual reports of African Development Bank (AfDB) (These include assumptions about credit rating where the borrower is not rated and the determination of credit spread for different ratings including speculative investment rating) Asian Development Bank (ADB) ADB, 2006 Annual Report p79) and the World Bank International Development Association (IDA) (World Bank IDA, Financial Statements for the year ended 30 June 2008 p33) among others will also indicate reasons why many public sector institutions may not be willing to recognise their concessionary loans at fair value.</p> <p>In our opinion, imputed expenses generally and imputed interest specifically should not be recognised in financial statements. However, public sector entities should determine where practicable and disclose the extent of subsidy on their concessionary loans in a note to their financial statements. The disclosure should include all assumptions made by an entity in arriving at the amount of subsidy.</p>	<p>financial instruments at fair value. If a rate other than a market rate is used, the fair value measurement basis is compromised.</p> <p>To overcome this concern, appropriate disclosure can be made of the rate used, how it was determined etc. in accordance with the disclosures in IPSAS 1 around key estimation uncertainties, as well as the other disclosures required by ED 39. Information about the subsidies provided or grants received by entities provides useful information to the users of the financial statements and provides a quantitative analysis of the risks public sector entities are exposed to by providing concessionary loans.</p> <p>Noted.</p>
<p>005</p>	<p>Fédération des Experts Comptables Européens</p>	
	<p>We agree with the reporting approach at (a), and the distinction made at (b).</p>	<p>Noted.</p>
<p>006</p>	<p>Public Sector Accounting Board</p>	
	<p>Yes, we agree that any difference between the face amount of loan and its fair value (measured based on a discounted cash flow basis) should be expensed. There is a distinction between concessionary loans and a waiver of debt, and we agree with the explanation given in paragraph AG85.</p>	<p>Noted.</p>

007	New Zealand Institute of Chartered Accountants	
	<p>1. The FRSB does not wish to raise any issues regarding the guidance provided in relation to the issuer of concessionary loans.</p> <p>2. However, the FRSB is concerned that the proposals in ED 38, taken together with the proposed amendments to IPSAS 23 <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i> would lead to inconsistent treatment of some items. We illustrate our concerns by considering the treatment, by the recipient, of a concessionary loan and a non-exchange grant receivable.</p> <p>Concessionary loan</p> <p>3. ED 38, paragraph AG88, proposes that a concessionary loan received by an entity be split into an exchange component (being the fair value of the loan) and an off market (non-exchange component) with the exchange component being accounted for in accordance with ED 38 and the off-market portion being accounted for in accordance with IPSAS 23. The following table sets out our understanding of what this would mean for the initial recognition, initial measurement and subsequent measurement of these two components, and some issues that we would like the IPSASB to consider.</p>	<p>Noted. This is discussed as part of “other matters” [see key issue 4]</p>

	Fair value (exchange) component	Off-market (non-exchange) component	Comment
Initial recognition	ED 38 para 16 When, and only when, the entity becomes a party to the contractual provisions of the instrument.	IPSAS 23 para 50 When, and only when, (a) it is probable that an outflow ... will be required to settle the obligation and (b) a reliable estimate can be made of the amount of the obligation.	We are not sure that application of these different requirements would always lead to the two components of the transaction being recognised at the same point in time. We believe it is important that both components of the transaction should be recognised at the same point in time.
Initial measurement	ED 38 para 45 At its fair value plus transaction costs (apart from financial liabilities at fair value through surplus or deficit).	ED 38 AG88 states that any difference between the fair value of the loan and the transaction price (the loan proceeds) is accounted for in accordance with IPSAS 23. IPSAS 23 para 57 The best estimate of the amount required to settle the present obligation <i>at the reporting date</i> .	There is no discussion of transaction costs in ED 38. Should any transaction costs be allocated to the two components of the transaction? Transaction costs would affect subsequent measurement. Given that IPSAS 23 para 57 is dealing with measurement at initial recognition, why does it refer to measurement at “the reporting date”?
Subsequent measurement and derecognition	ED 38 para 49 At amortised cost using the effective interest method (apart from the exceptions listed in 49(a) to (d)).	ED 38 para AG90 Assets and liabilities arising out of contractual arrangements and which otherwise meet the definition of a financial instrument are subsequently measured and recognized in accordance with this Standard (ie ED 38).	Consistent treatment.

Contractual grant receivable

4. Using the guidance in ED 37, paragraph AG18, and ED 38 paragraph AG 90 we have set out our understanding of the initial recognition, initial measurement and subsequent measurement of a

	<p>contractual grant receivable.</p> <table border="1" data-bbox="283 251 1318 878"> <thead> <tr> <th data-bbox="283 251 466 310"></th> <th data-bbox="466 251 961 310">Contractual grant receivable</th> <th data-bbox="961 251 1318 310">Comment</th> </tr> </thead> <tbody> <tr> <td data-bbox="283 310 466 480">Initial recognition</td> <td data-bbox="466 310 961 480"> <p>IPSAS 23 para 31</p> <p>When, and only when, (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and (b) the fair value of the asset can be measured reliably.</p> </td> <td data-bbox="961 310 1318 480"> <p>This requirement differs from ED38 paragraph 16 which would apply to contractual exchange receivables.</p> </td> </tr> <tr> <td data-bbox="283 480 466 578">Initial measurement</td> <td data-bbox="466 480 961 578"> <p>IPSAS 23 para 42</p> <p>At fair value as at <i>the date of acquisition</i>.</p> </td> <td data-bbox="961 480 1318 578"> <p>IPSAS 23 does not address the treatment of the transaction costs.</p> </td> </tr> <tr> <td data-bbox="283 578 466 878">Subsequent measurement and derecognition</td> <td data-bbox="466 578 961 878"> <p>ED38 para AG90</p> <p>Assets and liabilities arising out of contractual arrangements and which otherwise meet the definition of a financial instrument are subsequently measured and recognized in accordance with this Standard (ie ED38).</p> <p>ED38 para 48(a)</p> <p>Loans and receivable are measured at amortized cost using the effective interest method.</p> </td> <td data-bbox="961 578 1318 878"> <p>Transaction costs will affect the subsequent measurement of loans and receivables under ED38.</p> </td> </tr> </tbody> </table> <p data-bbox="283 935 1419 1084">5. We appreciate that it is difficult to align the requirements of these standards. In order to ensure that all financial assets and financial liabilities are recognised and measured consistently, we recommend that the IPSASB specify that initial recognition and measurement of all financial assets and financial liabilities arising from transactions giving rise to both exchange and non-exchange revenue be in accordance with IPSAS XX (ED 38).</p>		Contractual grant receivable	Comment	Initial recognition	<p>IPSAS 23 para 31</p> <p>When, and only when, (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and (b) the fair value of the asset can be measured reliably.</p>	<p>This requirement differs from ED38 paragraph 16 which would apply to contractual exchange receivables.</p>	Initial measurement	<p>IPSAS 23 para 42</p> <p>At fair value as at <i>the date of acquisition</i>.</p>	<p>IPSAS 23 does not address the treatment of the transaction costs.</p>	Subsequent measurement and derecognition	<p>ED38 para AG90</p> <p>Assets and liabilities arising out of contractual arrangements and which otherwise meet the definition of a financial instrument are subsequently measured and recognized in accordance with this Standard (ie ED38).</p> <p>ED38 para 48(a)</p> <p>Loans and receivable are measured at amortized cost using the effective interest method.</p>	<p>Transaction costs will affect the subsequent measurement of loans and receivables under ED38.</p>	
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008	Institute of Chartered Accountants of Scotland													
	<p>We agree with the proposed treatment of concessionary loans on initial recognition on the grounds that the treatment is consistent with the requirements of IAS 39 and we agree with the material in the application guidance on the distinction between the loan and the waiver of debt.</p> <p>AG 89 refers to using categories defined in paragraph 10. Paragraph 10 contains a fairly long list of definitions and we believe that a more precise reference to which definition is being referred to in relation to subsequent measurement would be helpful.</p> <p>The reference in AG 88 to paragraph IG54 of IPSAS 23 is incorrect. There is no IG54 in IPSAS 23 but there is an IG54 in ED 38 (page 126 of the marked up version) which deals with concessionary loans.</p>	<p>Noted.</p> <p>Agreed, Staff will clarify that the reference is to “categories of financial assets and financial liabilities”.</p> <p>Staff has checked the reference; it is correct. IG54 is added as part of the</p>												

		consequential amendments to IPSAS 23.
009	Dutch Local Government Accounting Standards Board (Commissie BVV)	
	<p>The Exposure Draft “Financial Instruments: Recognition and Measurement” proposes that any difference between the fair value of a loan and the transaction price is treated as an expense in surplus at the initial recognition (AG88).</p> <p>We give the following explanation:</p> <p>The concessionary loans, granted below market terms to local non-profit-entities, provide their benefits to the local non-profit-entities during the contracted loan. These non-profit-entities are mostly also yearly subsidized by the same local government and yearly provide social and/or cultural services to the local community. In our opinion the extra expense regarding the difference between the fair value of a concessionary loan and the transaction price in that case should be recognized according these benefits.</p> <p>But in our opinion the extra costs of providing this information do not measure up to the extra insight. Also the granted concessionary loans are held to maturity by the local governments and a historical (old) fair value also soon loses its information value, so the historical costs provide adequate information.</p>	<p>Noted. This issue has been raised as key issue 1 for consideration by the Board at the September 2009 Board meeting.</p> <p>Noted. Staff is of the view that the accounting for concessionary loans is appropriate.</p>
010	J Maresca	
	No comment.	Noted.
011	Cour des Comptes	
	<p>(a) We approve that requirement, the public sector entity should recognize an expense and the recipient should recognize a revenue. The recognition of such an expense gives an essential information to the administrators of concessionary loans. However, the choice of the market interest rate might appear to be difficult, as public issuers (i.e. Governments) rarely refinance themselves at market rates.</p> <p>(b) We have no substantive disagreement. We only have a questioning about the choice of market rate as a reference, to the extent that public sector entities (Governments) are often refinanced at a rate below the market rate.</p>	<p>Noted.</p> <p>Noted. The use of a market rate is consistent with the fair value measurement of financial instruments in ED 38 and IAS 39.</p>
012	Accounting Standards Board UK	
	We agree that, where it is considered that you have a concessionary loan, as defined in the ED, the required accounting is appropriate as an interim measure. We do however consider there is a risk that the true nature of the arrangement is not being captured and that paragraph AG 87 needs to provide more	Noted. Staff will assess the application guidance and provide guidance on the distinction between loans, transfers of

	<p>guidance on assessing the substance of a concessionary loan and whether it falls to be classified as a financial instrument.</p> <p>Where a concessionary loan does fall within the scope of the ED, more guidance on the circumstances in which the subsidy might represent an asset, rather than an expense, of the lender would be useful.</p> <p>We agree that it is important to distinguish between a concessionary loan and a waiver of debt; the key distinction being that in a concessionary loan the lender agrees to receive a below market rate of return, whereas a waiver of debt arises as a result of a decision to enter into new or revised contractual arrangements for an existing loan.</p> <p>We consider the illustrative examples for concessionary loans to be helpful. We would however that example 4 would be more helpful if, like example 3, it provided tables explaining the detailed calculations that support the accounting entries.</p>	<p>resources and contributions from owners.</p> <p>This issue has been included as key issue 1 for consideration by the Board at its September meeting.</p> <p>Noted. No further action required.</p> <p>Agreed. Staff will include these tables as part of the editorial review of the exposure draft.</p>
013	Accounting Standards Board South Africa	
	<p>We support the approach adopted in ED38 for the treatment of concessionary loans. AG108 should however be amended to exclude concessionary loans as it relates to the recognition of day 1 gains and losses where initial fair value is determined based on a valuation model using market inputs.</p>	<p>Noted. AG108 will be reviewed as part of the editorial review of the ED.</p>
014	European Commission	
	<p>We agree with you that the general principle in accounting for concessionary loans should be that at initial recognition the difference between fair value and transaction price needs to be expensed.</p> <p>However, we think that under certain circumstances the capital markets should not be a reference point in determining the fair value of a loan. A supranational organisation (e.g. the European Communities) may lend money notably during a crisis period to another Member State or third country with the intention that the loan be repaid at below market terms. In this case it may be appropriate to use the transaction price as fair value instead of market values if the capital market is not a realistic alternative for the issuer of the loan.</p> <p>It is one of the main tasks of the European Communities and other public sector institutions to provide Member States with funding at conditions that a Member State would otherwise not get from the capital markets. For us, these are back to back transactions as the loans are given at the same conditions as the borrowings. Such loans are always guaranteed by the other Member States, thus the European Communities' carries no default risk. If the alternative of the supranational organisation is to lend the money as mentioned before or to do nothing, it would not be appropriate to refer to the capital markets when recognising the loan initially. The reason for this is that the European Communities are only</p>	<p>Noted.</p> <p>Noted. The use of a market rate is, however, consistent with the principle of initially recognizing financial instruments at fair value. If a rate other than a market rate is used, the fair value measurement basis is compromised. In particular, if an entity used its own cost or borrowing as a "market rate", this would result in concessionary loans being valued at an entity specific value rather than fair value.</p>

	<p>allowed to borrow money in order to pass the amounts borrowed, under the same terms, to a Member State or third country. In this context it doesn't matter that the interest rate is preferential for the receiving country in comparison with the interest rate that it would have to pay at the capital markets. The European Communities carries no losses as these activities have the character of back-to-back operations. The alternative is simply to do nothing. In this case it seems to be appropriate to choose the transaction price as fair value. This is obvious by the fact that the European Communities would lend an amount that is substantially the same under the same conditions. The best evidence of the fair value of such a loan at initial recognition is thus the transaction price. The recognition of a fair value with reference to the capital markets would not provide a true and fair view as the European Communities have no realistic alternative to lend money under the conditions it gets for its borrowings. For these reasons we encourage IPSASB to add this as an example to the Exposure Draft where the general principle is not applicable.</p> <p>We agree with the distinction made at (b).</p>	<p>Noted. No further action required.</p>
<p>015</p>	<p>HoTARAC</p>	
	<p>The majority of HoTARAC members support the application guidance relating to the issuer of concessional loans, and acknowledge that, while these types of loans are not unique to the public sector, the application guidance will assist entities with a limited understanding of the accounting implications of loans with non-commercial terms.</p> <p>(a) HoTARAC agrees with the requirement that any difference between the transaction price of the loan and fair value of the loan at initial recognition should be expensed by the lender, and notes that this is consistent with how the Australian public sector accounts for these loans and is in line with Government Finance Statistics. Some HoTARAC members consider clarification is required of the implications of Paragraphs AG81 and AG88 which both discuss the treatment of differences between fair value and the transaction price, and whether mirror treatments between lenders and borrowers will always result. In particular, the last sentence of Paragraph AG81 differs from sub-Paragraph AG88(b).</p> <p>(b) HoTARAC agrees with the distinction between a concessionary loan which is provided below market terms and a waiver of debt on a loan provided on market terms. HoTARAC notes that, while there may be concerns that an entity may contrive accounting results from year to year by not accounting for its true intentions up-front, the requirement to treat these transactions based on the substance of the intention should mitigate this risk.</p>	<p>Noted.</p> <p>Noted. This issue has been included as key issue 1 for consideration by the Board at its September meeting.</p> <p>Staff will re-examine the application guidance paragraphs to ensure that no inconsistencies exist.</p> <p>Noted. No further action required.</p>

016	Japanese Institute of Certified Public Accountants	
	<p>We agree with this Application Guidance. The reason is as follows.</p> <p>If only the interest arising from a concessionary loan, which is granted by an entity at below market terms, is recognized as a revenue and the cost related to a concessionary loan is not recognized as an expense, such an accounting treatment does not reflect the fact that an entity grants a concessionary loan to deliver social benefits, compared with a grant.</p> <p>However, the IPSASB should consider the substance of this cost, which is the difference between the transaction price of the loan and the fair value of the loan at initial recognition.</p> <p>This cost admits of two interpretations. Firstly, this cost may be considered as an impairment loss because an entity grants a concessionary loan at below market terms, which corresponds to the credit risk of the borrower, and the interest rate of this loan does not correspond to the credit risk of the borrower. Secondly, this cost, which is the difference between the transaction price of the loan and the fair value of the loan at initial recognition, may be considered as a social benefit because an entity grants a concessionary loan at below market terms rather than make a grant in order to achieve the policy target. In the latter interpretation, when a borrower continuously meets a requirement to lend a concessionary loan at below market terms during the loan period, it may be rational that the entity shall recognize this cost as an expense on a systematic basis over the loan period.</p> <p>Therefore, the IPSASB should consider the substance of the cost, which is the difference between the transaction price of the loan and the fair value of the loan at initial recognition, and whether it is necessary for an entity to recognize this cost as an expense on a systematic basis over the loan period.</p> <p>Consider that a public institution grants a concessionary loan at below market terms and the national government makes a grant to make up for the amount between the market rate of interest and the loan's interest rate. In this case, the IPSASB should consider whether a public institution shall determine the fair value of the loan at initial recognition, with a grant received by the national government, or a public institution shall distinguish between granting a concessionary loan at below market terms and receiving a grant from the national government, and, in which case, IPSAS 23 "Revenue from Non-Exchange Transactions (Taxes and Transfers) applies to this grant.</p>	<p>Noted.</p> <p>Noted. This issue has been included as key issue 1 for consideration by the Board at its September meeting.</p> <p>Staff is, however, of the view that the interpretation of the discount representing an impairment loss on initial recognition is inconsistent with the current impairment model in IAS 39/ED 38, which is based on an incurred rather than an expected loss model. The initial discount does however reflect the initial pricing of credit risk.</p>
017	New South Wales Treasury	
	<p>We generally agree with the response of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC).</p> <p>General comment</p> <p>We are not convinced that additional guidance is necessary regarding financial guarantees or</p>	<p>Noted. Concessionary loans differ in substance from off-market loans in private sector. The non-exchange element of these transactions have specific accounting consequences in the public sector and therefore additional guidance is required for these transactions. Likewise for</p>

	concessionary loans. Neither financial guarantees nor concessionary loans are unique to the public sector.	financial guarantee contracts issued through a non-exchange transaction.
018	Association of Chartered Accountants (ACCA)	
	<p>We agree with the distinction set out in paragraph AG 84 about the difference between concessionary loans and the waiver of debt.</p> <p>We agree that any difference between the transaction price of the loan and fair value (where a reliable valuation used) should be expensed as set out in paragraph AG87.</p>	Noted.
019	Audit Commission UK	
	<p>(a) Where an entity has entered into a concessionary loan as defined in the ED, we agree that the required accounting is appropriate. The Application Guidance could better explain the principles contained in the other standards referred to relating to the classification and valuation of the loan.</p> <p>(b) The distinction between concessionary loans and waiver of debt is an important one and the Application Guidance adequately summarises this distinction.</p>	<p>Noted. This issue of interaction between this ED and IPSAS 23 in particular, is addressed as part of the “other matters” for consideration at the Board meeting.</p> <p>Noted.</p>
020	Treasury Board of Canada	
	No comment.	Noted.
021	Office of the Comptroller of Ontario – Canada	
	<p>Concessionary Loans and Loan Guarantees</p> <p>We noted that in measuring the grant or concession portion of concessionary loans, the proposed standard requires that a market rate (versus existing Canadian practice of using a government’s weighted average cost of capital) be used in calculating the grant expense. The standard does not include a rationale for doing so. Consistent with Ontario’s perspective that historical cost continues to be a superior approach to reporting government financial instruments, using a government’s actual cost of capital to measure foregone revenue is more appropriate as it reflects the true cost of the borrowing and the true cost to taxpayers for provision of that good or service. In contrast, calculating the expense using a market rate would unnecessarily inflate the amount of the concession provided to the borrower.</p> <p>Debt Extinguishment</p> <p>In regards to debt extinguishment, we disagree that gains or losses should be recognized on the statement of operations under all circumstances. From a transparency and accountability perspective, it is important to ensure that the accounting treatment reflect the substance of transactions. The usefulness and understandability of the statement of operations will be preserved if the nature and intent of government</p>	<p>Noted. However using an entity’s own cost of borrowing would result in an entity specific value being applied for the measurement of concessionary loans and not fair value.</p> <p>Noted. As IAS 39 does not allow for the deferral of such gains and losses, it would</p>

	debt repurchasing and conversion activities is reflected in their accounting treatment. Rather than accounting for these transactions as extinguishment of debt and requiring recognition of associated gains or losses in the statement of operations, we feel that in those situations where a government issues new debt to replace old debt on similar terms (where there is an opportunity to reduce financing costs) that government accounting standards should allow deferral of related gains and losses.	be a significant deviation from existing principles in the IFRSs and would therefore not be within the scope of this convergence project. The project on the conceptual framework may, however, in future address issues regarding the recognition and presentation of gains and losses arising from changes in assets and liabilities.
022	CIPFA	
	We agree with the reporting approach at (a), and the distinction made at (b)	Noted.
023	Ministry of Finance, Quebec	
	No comment.	Noted.
024	United Nations	
	No comment.	Noted.
025	Australian Accounting Standards Board	
	<p>The AASB believes that the proposed guidance relating to the issuer of concessionary loans in paragraphs AG83 to AG89 is consistent with the requirements and guidance regarding low interest or interest free loans in IAS 39. Therefore, the AASB agrees that any difference between the transaction price of the loan and fair value of the loan at initial recognition should be expensed.</p> <p>However, the AASB questions whether the distinction between concessionary loans and waivers of debt is necessary. A concessionary loan would be accounted for in accordance with the low interest and interest free loans guidance in the IPSAS equivalent to IAS 39, whereas a waiver of debt would be accounted for in accordance with the impairment guidance in that Standard. If the IPSASB considers that such a distinction is necessary in the public sector, despite the other guidance present in the proposed IPSAS, then the treatment of waivers of debt should be clarified in the guidance.</p> <p>In addition, the AASB believes that the proposed guidance in paragraphs AG83 to AG89 should be reviewed and, where appropriate, amended to:</p> <ul style="list-style-type: none"> (a) avoid repetition of guidance that already exists in IAS 39; (b) acknowledge in the first sentence of proposed paragraph AG87 that ‘concessionary loans’ could involve <i>both</i> an in substance loan (initially measured at fair value) and a ‘contribution from 	<p>Noted.</p> <p>Noted. The last sentence of AG85 does indicate that such waivers of debt are dealt with in accordance with the derecognition requirements of ED 38 (which in turn refer to IPSAS 23 where an entity’s debt is waived).</p> <p>(a) and (b) Noted. Staff will review the application guidance paragraphs as part of</p>

	<p>owners' for the difference between the loan proceeds and the initial fair value of the loan. The first sentence of paragraph AG87 indicates that the substance of a 'concessionary loan' could be a loan, a grant <i>or</i> a contribution from owners; and</p> <p>(c) consistent with (b) above, acknowledge in proposed paragraph AG88(b) that the difference between the loan proceeds and the initial fair value of the loan granted could be a distribution to owners, rather than an expense.</p>	<p>the editorial review of the ED.</p> <p>Noted. Staff is of the view that it is more likely that the nature of this transaction would probably be in the nature of an additional investment rather than a distribution to owners (which either represents a return of or on capital).</p>
026	NIVRA	
	<p>(a) We do not agree with this approach. Concessionary loans are common in many jurisdictions including our jurisdiction. Governments use concessionary loans as an instrument to pursue policy objectives, e.g. to provide students the opportunity to study, to stimulate ecological friendly farming, to provide help to third world countries and to support corporate entities at times of economic distress. The difference between the transaction price and fair value is the price the government pays to achieve its goals. Regarding other categories of assets (e.g. property, plant and equipment) IPSAS recognizes the relevance of future service potential. Fair value as measurement basis of concessionary loans at initial recognition implicates that (partial) absence of future economic benefits leads to expensing the difference between the transaction price and the fair value. We are of the opinion that this treatment disregards the service potential of concessionary loans. We see no reason to immediately expense the difference between the transaction price and the fair value. We propose to measure the concessionary loan by the grantor at initial recognition at its cost and subsequently at amortized cost.</p> <p>(b) We agree with the distinction between concessionary loans and the waiver of debt.</p>	<p>Noted. This issue has been included as key issue 1 for consideration by the Board at its September meeting.</p> <p>Noted. No further action required.</p>
027	Comptroller of British Columbia	
	<p>We agree that a concessionary loan should be separated into its component parts. We agree that the component part that represents a grant should be recognized as an expense by the granting entity. We disagree that the component part that is a loan should be recognized at its fair value. We believe that the component part that is a loan should be recognized at its face value and not fair value. Recognizing the component part that is a loan at fair value rather than face value would introduce unnecessary and artificial volatility to the financial statements because government will hold the loan until its maturity. We also believe that the component part that is a loan should be assessed for impairment at each financial statement date and if the loan component becomes impaired, that the impaired amount should be recognized as an expense in the statement of financial performance. Our position is consistent with Canadian public sector GAAP which, in section 3050, requires the following with respect to concessionary loans:</p> <ul style="list-style-type: none"> • When the terms of a loan are so concessionary that the substance of the transaction is that all or a 	<p>Staff is of the view that the proposed accounting of treatment of concessionary loans is appropriate. The measurement of concessionary loans other than at fair value contradicts the basic principles of IAS 39 and ED 38.</p>

	<p>significant part of the loan is more in the nature of a grant, the grant portion of the transaction should be recognized as an expense when the loan is made.</p> <ul style="list-style-type: none"> The recorded value of the loan at the date of issue should be its face value discounted by the amount of the grant portion. 	
<p><i>Specific matter for comment 2:</i></p> <p><i>Do you agree with the Application Guidance relating to financial guarantees provided for nil or nominal consideration (paragraphs AG91 to AG96), in particular that entities should apply a mathematical valuation technique to obtain a fair value where this produces a reliable measure of fair value? Alternatively, where a fair value cannot be obtained through observation of an active market, do you think that initial recognition should be in accordance with IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets.”</i></p> <p><i>Please state your reasons.</i></p>		
001	Comité des Normes de Comptabilité Publique	
	<p>We do not support the provisions of paragraphs AG 91 to 96, because we find them unsuitable for the public sector. Indeed, as mentioned in paragraph 10 BC, we believe that the financial guarantee contracts in the public sector can not generally be measured at fair value to the extent that there is no active market and that the valuation techniques based on observable data can not be applied. Consequently, we think that these contracts should be accounted for at nominal or contract value at initial recognition and that subsequent measurement should be at the higher of the amount determined in accordance with IPSAS 19 and the amount initially recognized, less, when appropriate, cumulative amortization.</p>	<p>Noted. Nominal values may however not be appropriate for financial guarantees issued through non-exchange contracts.</p> <p>Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.</p>
002	Swiss Public Sector Financial Reporting Advisory Committee	
	<p>We are of the view that the use of mathematical valuation techniques can be justified in some circumstances (level 2 BC11). However, in many cases the use of IPSAS 19 is clearly the preferred treatment, because mathematical techniques are doubtful particularly in their reliability. The treatment under IPSAS 19 also requires disclosure instead of recognition if an outflow is not likely. Therefore no hierarchy of the alternative treatment should be given and both mathematical techniques and the use of IPSAS 19 should be alternatives, which are used depending on the substance of the transaction.</p>	<p>Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.</p>
003	The OPEC Fund for International Development	
	No comment.	Noted.
004	J Maresca	
	No comment.	Noted.

005	Fédération des Experts Comptables Européens	
	We agree with the three levels of the hierarchy which the Board proposes. In practice there may be few instances where, in the absence of suitable market information, a reliable mathematical valuation can be used.	Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.
006	Public Sector Accounting Board	
	We agree with provisions in the Application Guidance applying to financial guarantees and find particularly useful the reference in paragraph AG96 requiring entities to apply the principles of IPSAS 19 to the measurement of a financial guarantee at initial recognition (when no Level One or Level Two value is available).	Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.
007	New Zealand Institute of Chartered Accountants	
	The FRSB supports the proposals in the Application Guidance paragraphs AG91 to AG96. In New Zealand, we have found that a fair value cannot always be obtained through observation of an active market and that it is both useful and appropriate that initial recognition of financial guarantees issued at no or nominal consideration is in accordance with our provisions standard NZ IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> . The methodology used by the New Zealand Government for recognising such financial guarantees includes an analysis of the estimate of the obligation if the guaranteed entity defaulted (loss given default) and the probability of default.	Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.
008	Institute of Chartered Accountants of Scotland	
	We agree with the application guidance relating to financial guarantees provided at nil or nominal consideration. The material within ED 38 on the initial and subsequent measurement of financial guarantee contract appears consistent with the equivalent IASB standards.	Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.
009	Dutch Local Government Accounting Standards Board (Commissie BVV)	
	No comment.	Noted.
010	J Maresca	
	No comment.	Noted.

011	Cour des Comptes, France	
	<p>As mentioned in § BC 10, financial guarantee contracts in the public sector can not always be reliably measured at fair value, as active markets do not always exist where those contracts could be exchanged, and valuation techniques based on observable data can not always be used. On the other hand, some contracts can be measured that way. Therefore, it seems that an option should be included in the standard, with the possibility of a case-by- case analysis.</p>	<p>Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.</p>
012	Accounting Standards Board UK	
	<p>We agree that entities should apply a mathematical valuation technique to obtain a fair value where this produces a reliable measure. We also agree that where a fair value cannot be obtained through observation of an active market that initial recognition should be in accordance with IPSAS 19. This approach is considered consistent with the fair value hierarchy that was introduced by the IASB’s January 2009 amendment to IFRS 7 and is reflected in ED 39.</p> <p>We had some difficulty following the fair value hierarchy that is discussed in paragraphs AG95 and AG96. In particular, we do not consider that level two, as described in AG 95, easily reads across to the IASB’s level two (on the grounds that level two would normally require market inputs). We therefore suggest that IPSASB more closely aligns its Application Guidance with the IASB text.</p>	<p>Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.</p> <p>Noted. Staff agrees that the references are inconsistent and will be amended as part of the editorial review of ED38.</p>
013	Accounting Standards Board South Africa	
	<p>We support the proposal as it is a practical means of dealing with the valuation of financial guarantee contracts. We have reservations about the existence of a “price in an active market” for a financial guarantee contract. We also question why loan commitments are treated differently in ED 38 even though the overarching accounting principles for both types of instruments are similar.</p> <p>AG95 refers to a “Level One” and “Level Two” hierarchy. This can be confused with the “Level One”, “Level Two” and “Level Three” hierarchy proposed in paragraph 31 of ED 39, which has subtle differences. We therefore propose that the references in AG95 be deleted.</p>	<p>Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting. Loan commitments could potentially be addressed as part of a future project on additional public sector areas requiring consideration.</p> <p>Noted. Staff agrees that the references are inconsistent and will be amended as part of the editorial review of ED38.</p>
014	European Commission	
	<p>We are of the opinion that at initial recognition the fair value of a financial guarantee at nil or nominal consideration should be determined with reference to quoted prices available in an active market for financial guarantee contracts directly equivalent to that entered into. Only in cases where there is no active market for a directly equivalent guarantee contract a public sector entity should initially recognise a</p>	<p>Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.</p>

	<p>financial guarantee at nil or nominal consideration in accordance with IPSAS 19.</p> <p>It should also be considered that the application of mathematical valuation techniques is most of the time rather complex and specialised staff are thus needed. In times of tight budgets of governments the underlying cost / benefit principle should be considered. This is in particular true if — as in the European Communities cases (See our note D(2009) 716 sent to IPSASB on 26 January 2009) — the outcome of a valuation technique is substantially the same as the treatment in accordance with IPSAS 19. The application of mathematical valuation techniques is very complex for unique financial guarantee contracts with no market data available. The use of assumptions is in these cases important and it can be questioned whether an estimation of discounted futures cash outflows (provision) or the use of assumptions for the valuation model provide more relevant, understandable and reliable information. We think that if the accounting information is necessarily based on uncertainty we should at least use the method that produces less cost and saves taxpayers money if the reliability of accounting information is not significantly reduced then that of the more expensive solution. Furthermore the application of mathematical valuation techniques produces in some cases significant losses at initial recognition that needs to be reversed in subsequent periods (For details see also the note mentioned in footnote 1). The above mentioned arguments demonstrate that in the operating environment of the European Communities, the costs of application of mathematical valuation techniques would outweigh the benefits and the fair presentation would not be improved.</p>	
<p>015</p>	<p>HoTARAC</p>	
	<p>HoTARAC agrees with the Application Guidance relating to financial guarantees provided for no or nominal consideration. HoTARAC believes this approach is consistent with the fair value measurement approach within IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. HoTARAC notes that a financial guarantee provided for solely under legislation should not be a financial instrument, as it contains no element of contract or binding agreement between parties (in the same way that statutory receivables such as taxes should not be financial instruments).</p> <p>However, regarding the alternative approach in the IPSASB’s question, HoTARAC does not support the proposition that, where a fair value cannot be obtained through observation of an active market (eg level one), an entity should be allowed to jump directly to IPSAS 19 on provisions (eg level three), as this would deviate from the IAS 39 hierarchy.</p> <p>HoTARAC suggests that, when measuring financial guarantees given at nil or nominal consideration, in taking into account the probability of default, consideration be given to the level of gearing, stability of the industry and the funding framework. HoTARAC notes that the IPSASB should be mindful of the references to levels 1 2 and 3 (AG94-AG96) as these have not been included elsewhere in the ED. HoTARAC believes that the IPSASB should monitor the International Accounting Standards Board’s <i>Fair Value Measurement</i> Project, especially in relation to the proposed fair value hierarchy and the implications this may have on measuring financial instruments. HoTARAC also believes that the IPSASB should monitor the outcome of the current IASB Project on IFRS 4 <i>Insurance Contracts</i>, and its</p>	<p>Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.</p> <p>Noted. Staff agrees that the references are inconsistent and will be amended as part of the editorial review of ED38.</p>

	application to accounting for financial guarantees.	
016	Japanese Institute of Certified Public Accountants	
	<p>We agree with the Application Guidance relating to financial guarantees provided for nil or nominal consideration (paragraphs AG91 to AG96). Also, we agree with this proposal that entities should apply a mathematical valuation technique to obtain a fair value where a fair value cannot be obtained through observation of an active market and a mathematical valuation technique produces a reliable measure of fair value. The reason is as follows.</p> <p>When financial assets or financial liabilities other than financial guarantees provided for nil or nominal consideration are recognized initially at a fair value, entities should apply a mathematical valuation technique to obtain a fair value where a fair value cannot be obtained through observation of an active market. We cannot think of any positive reason why entities need not apply a mathematical valuation technique to determine the fair value of financial guarantees provided for nil or nominal consideration.</p>	Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.
017	New South Wales Treasury	
	<p>We query the references to Level One, Level Two and Level Three in paragraphs AG94-96 when this is not included elsewhere in the ED or in IAS 39. So far, these levels are only explicitly referred to in IFRS 7 and not in IAS 39. Given this, it does not seem appropriate for them to be introduced in the Application Guidance to the equivalent of IAS 39.</p> <p>We suggest that, when measuring any financial guarantee given at nil or nominal consideration, in referring to the probability of default, consideration be given to the level of gearing, stability of the industry and the funding framework.</p>	<p>Noted. Staff agrees that the references are inconsistent and will be amended as part of the editorial review of ED38.</p> <p>Noted. Entities would use all information available when assessing the probability of default.</p>
018	Association of Chartered Accountants (ACCA)	
	<p>ACCA has previously supported the main requirements of IAS 39 and has raised general concerns about the reliability of fair values once these move too far way from active markets. In our view it would be extremely difficult to apply a meaningful mathematical valuation to financial guarantees in the public sector which take account of financial risk. We would prefer to see the accounting treatment as set out in option 2. Where an active market doesn't exist we would agree that initial recognition of the financial guarantee contract the principles of IPSAS 19 should apply.</p>	Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.
019	Audit Commission UK	
	<p>In the likely event that there is no active market for the type of guarantee entered into, we agree that entities should apply a mathematical valuation technique to obtain a fair value where this produces a reliable measure using other observable inputs. We also agree that where a fair value cannot be obtained</p>	Noted. Final approach to be confirmed after consideration of key issue 2 at the

	<p>from either method that initial recognition should be in accordance with IPSAS 19. This aligns with the with the fair value hierarchy contained in ED 39 (and as contained in the source IASB standard, IFRS 7).</p> <p>We do not believe that the levels of the fair value hierarchy as explained in AG para 95 adequately reflect the criteria as outlined in ED 39 para 31 and the corresponding Application Guidance. The explanation of Level 2 in AG 95 does not accurately reflect the Level 2 as outlined in ED 39 as it does not stress the importance of inputs from observable sources in the calculation of fair value.</p>	<p>September Board meeting.</p> <p>Noted. Staff agrees that the references are inconsistent and will be amended as part of the editorial review of ED38.</p>
020	Treasury Board of Canada	
	No comment.	Noted.
021	Office of the Comptroller of Ontario	
	<p>Concessionary Loans and Loan Guarantees</p> <p>We noted that in measuring the grant or concession portion of concessionary loans, the proposed standard requires that a market rate (versus existing Canadian practice of using a government’s weighted average cost of capital) be used in calculating the grant expense. The standard does not include a rationale for doing so. Consistent with Ontario’s perspective that historical cost continues to be a superior approach to reporting government financial instruments, using a government’s actual cost of capital to measure foregone revenue is more appropriate as it reflects the true cost of the borrowing and the true cost to taxpayers for provision of that good or service. In contrast, calculating the expense using a market rate would unnecessarily inflate the amount of the concession provided to the borrower. In regards to loan guarantees, the standard proposes that governments’ measure the fees related to the guarantee at fair value. The standard does not include a rationale for doing so. In the government’s case, most of its loan guarantees are made to organizations within the government reporting entity, and loan guarantee fees are usually calculated as a flat percentage of the outstanding guarantee. Given the simplicity of such agreements and transactions, we find the proposed guidance unnecessarily complex and not reflective of the nature and type of typical government loan guarantee transactions.</p>	<p>Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.</p> <p>The use of an entity’s own cost of borrowing would result in an entity specific rather than a fair value, which is in contravention of the principles of IAS 39.</p>
022	CIPFA	
	We agree with the three levels of the hierarchy which the Board proposes. In practice there may be few instances where, in the absence of suitable market information, a reliable mathematical valuation can be used.	Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.
023	Ministry of Finance, Quebec	
	No comment.	Noted.

	<p>guidance.</p> <p>However, the AASB notes that the last sentence of paragraph AG107 says: “The best evidence of the fair value of a financial instrument at initial recognition is the transaction price ... unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets”.</p> <p>The AASB considers that in various instances in which financial instruments (or items treated as financial instruments) are created through non exchange transactions, such as concessionary loans or some financial guarantees, the transaction price will not be the best evidence of fair value at initial recognition, but there will not exist the market evidence proposed to be required by paragraph AG107 to ‘move off’ the transaction price at initial recognition.</p> <p>The AASB suggests that, to remove the potential inconsistency between proposed paragraph AG107 and the other abovementioned paragraphs, consideration be given to qualifying the last sentence of paragraph AG107 as applying to a transaction price in an exchange transaction. In addition, the AASB suggests that the IPSASB consider amending proposed paragraph AG107 to say something along the lines of ‘...the best evidence of the transaction price for financial instruments in a non-exchange transaction can be a fair value measurement based on Level 3 inputs (and not just observable market data)’.</p>	
026	NIVRA	
	<p>Governments typically operate in an environment where market values are hard to obtain. In most cases, no market values will be readily available because of the absence of an active market (level one). Therefore, the application guidance (AG9I to AG96) in ED 38 will lead to a situation where in most cases the government has to use a mathematical valuation technique to obtain a fair value (level 2). The consequence is that level 2 (or even level 3) will be the rule instead of the exception. In our opinion this is not a desired situation. Moreover, it will force governments into onerous calculations and the risk of affecting the reliability of financial statements. The requirement in ED 37 to treat financial guarantee contracts issued at no or nominal consideration as financial instruments reinforces this. We propose to eliminate level one and level two and require governments to apply the principles of IPSAS 19 to the financial guarantee contract at initial recognition.</p>	<p>Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.</p>
026	Comptroller General of British Columbia (Canada)	
	<p>We disagree with loan guarantees being recognized at fair value. We disagree with the application of a mathematical valuation technique to obtain a fair value because this would result in the fair value being recognized in expense, even when there is a low likelihood of the loan guarantee being called upon. We believe that Canadian public sector guidance is more suitable for the valuation of public sector loan guarantees. Canadian public sector accounting standard section 3310 on loan guarantees provides the following guidance:</p>	<p>Noted. Final approach to be confirmed after consideration of key issue 2 at the September Board meeting.</p>

- Government loan guarantees should be accounted for and reported as contingent liabilities in the government's financial statements.
- A provision for losses on loan guarantees should be established when it is determined that a loss is likely, and should be accounted for as a liability and an expense.
- The provision for losses on loan guarantees should take into account the principal amount outstanding, accrued and unpaid interest if it is guaranteed, and amounts recoverable from the borrower and from the sale of assets pledged as security.
- The provision for losses on loan guarantees should be determined using the best estimates available in light of past events, current conditions, and taking into account all circumstances known at the date of preparation of the financial statements.
- The provision for losses on loan guarantees should be reviewed on an ongoing basis. Any changes in the provision for losses on loan guarantees should be charged or credited to expenses.
- The provision for loss on a loan guarantee should be removed from the government's statement of financial position when the guaranteed loan has been discharged or the term of the loan guarantee has expired.
- Government financial statements should disclose information to describe the accounting policies selected and applied to loan guarantees, including:
 - (a) the basis for initial recognition and measurement of the provision for losses on loan guarantees; and
 - (b) the policy with respect to changes in the amount of the provision.
- Government financial statements should disclose in notes or schedules the nature and terms of significant classes of loan guarantees. Information that should be disclosed includes:
 - (a) the authorized limit;
 - (b) the principal amount outstanding;
 - (c) the amount of provision for losses; and
 - (d) general terms and conditions.

Specific matter for comment 3

Do you agree with the transitional provisions in paragraphs 114 to 123? If you do not agree with these transitional provisions please indicate further transitional provisions that are necessary, or those transitional provisions that are unnecessary. Please state your reasons.

001	Comité des Normes de Comptabilité Publique	
	We cannot reply since IPSAS standards are not applicable in France.	Noted.
002	Swiss Public Sector Financial Reporting Advisory Committee	
	We agree with the proposed transitional provisions.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
003	The OPEC Fund for International Development	
	No comment.	Noted.
004	J Maresca	
	No comment.	Noted.
005	Fédération des Experts Comptables Européens	
	We agree with the transitional provisions.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
006	Public Sector Accounting Board	
	We agree with the transitional provisions as proposed.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
007	New Zealand Institute of Chartered Accountants	
	The FRSB supports the proposed transitional provisions in ED 38.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
008	Institute of Chartered Accountants of Scotland	
	Although complex, the transitional provisions appear reasonable. However, we also note that the	Noted. Final approach to be confirmed

	transitional provisions do not refer to transitional provisions for the first time adoption of IPSASs. We recommend that the transitional provisions are amended to refer to the requirement for comparatives in this situation. This will ensure consistency on this point with ED 37.	after consideration of key issue 3 at the September Board meeting. Staff will review the wording to ensure that this is clear.
009	Dutch Local Government Accounting Standards Board (Commissie BVV)	
	No comment.	Noted.
010	J Maresca	
	No comment.	Noted.
011	Cour des Comptes, France	
	The question is not raised in France, as the standard setting is the responsibility of the Public Sector Accounting Standards Board, and as transitional provisions are set up in specific standards.	Noted.
012	Accounting Standards Board UK	
	Please see our response to ED 37 on transitional arrangements.	Noted.
013	Accounting Standards Board South Africa	
	<p>We agree with the transitional provisions, albeit that they are complex and difficult to understand.</p> <p>The proposed exposure draft on <i>Financial Instruments: Classification and Measurement</i> allow entities the following relief: “If it is impracticable (as defined in IAS 8) for an entity to apply retrospectively the effective interest rate method or the impairment requirements in paragraphs 58-65 and AG84-AG93 of IAS 39, the entity shall determine the amortised cost of the financial instrument or any impairment of a financial asset in each period presented on the basis of the fair value of the financial instrument at the end of each comparative period. If an impairment loss is recognised using that approach or if it is impracticable for the entity to apply the effective interest rate method, the fair value of the financial instrument at the date of initial application shall be the new amortised cost of that instrument at the date of initial application of this [draft] IFRS.”</p> <p>Public sector entities adopting accrual accounting or IPSASs for the first time may find it difficult to determine the effective interest for instruments that were issued several years ago, and may also find it difficult to apply impairment testing retrospectively. We would propose that similar relief be provided in ED38 on the basis of “impracticability” as defined in IPSAS 3.</p>	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.

014	European Commission	
	We agree with the proposed general principle that the standard should be applied retrospectively. This is a necessity given the underlying principle of accounting: comparability.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
015	HoTARAC	
	Consistent with HoTARAC's response to ED 37, HoTARAC does not support the transitional provisions in ED 38 to the extent that they require presentation of comparative information in accordance with the requirements in ED 38. As mentioned in respect of ED 37, HoTARAC believes retrospective application would be costly and time-consuming for those entities required to convert cash-based information to accrual comparative information. HoTARAC also notes that, although IAS 32 does not contain any transitional provisions, the AASB did not require Australian entities to present comparative information on transition to IFRS.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
016	Japanese Institute of Certified Public Accountants	
	We agree with the transitional provisions in paragraphs 114 to 123.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
017	New South Wales Treasury	
	We generally agree with the response of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC).	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
018	Association of Chartered Accountants (ACCA)	
	The transitional provisions set out in paragraphs 114-123 appear rather complex. These should be reviewed with a view to simplifying them where possible.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
019	Audit Commission UK	
	Please see our response to ED 37 on transitional arrangements, above.	Noted. Final approach to be confirmed after consideration of key issue 3 at the

		September Board meeting.
020	Treasury Board of Canada	
	No comment.	Noted.
021	Office of the Comptroller of Ontario	
	No comment.	Noted.
022	CIPFA	
	We agree with the transitional provisions.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
023	Ministry of Finance, Quebec	
	No comment.	Noted.
024	United Nations	
	No comment.	Noted.
025	Australian Accounting Standards Board	
	The AASB supports the transitional provisions in ED 38	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
026	NIVRA	
	We agree with the proposed transitional provisions.	Noted. Final approach to be confirmed after consideration of key issue 3 at the September Board meeting.
027	Comptroller General of Canada	
	We disagree with the recognition and measurement methodology described in this exposure draft. We	Noted; general disagreement with the approach adopted by the IPSASB and the

	believe that financial instruments should be recognized at the lower of cost or fair value.	use of IAS 39 as a basis for a public sector accounting standard. No view on transitional provisions
<i>Other matters</i>		
002	Swiss Public Sector Financial Reporting Advisory Committee	
	<p>Further issues:</p> <p>A There is an issue with equity instruments held by an entity, which do not qualify as associates (i.e. no significant influence, e.g. less than 20 percent of the shares). Unlike the private sector, public sector entities frequently hold such equity instruments in providing a public service (e.g. a 5 percent share in a regional hospital, which provides some services but not to a degree that would justify a larger investment). None of the categories for subsequent measurement defined in ED 38 is appropriate for such instruments (definitions of four categories of financial instruments, paragraph 10):</p> <ul style="list-style-type: none"> • Fair Value: Not feasible, because of not for profit characteristic. Also, the sale of the instrument is subject to severe restrictions (e.g. only to other shareholders). • Held to maturity: Not feasible, because no maturity. • Loan/receivable: Neither a loan, nor a receivable. • Available for sale: Not feasible, because instrument is not available for sale. <p>We therefore propose the introduction of a fifth category, which requires measurement at cost. This type of financial instrument is very common and frequently used in Switzerland.</p>	<p>Noted. These instruments should be categorized as available for sale (which is the default category in IAS 39), or alternatively such investments should be measured at cost in accordance with paragraph AG112 and AG113. (Also see the definition of a financial asset or financial liability at fair value through surplus or deficit where this is allowed).</p> <p>Note: the IASB has proposed to remove this default to cost in its recent proposals on classification and measurement of financial instruments.</p>
006	Public Sector Accounting Board	
	<p>Reporting on changes in assets and liabilities</p> <p>The IAS Framework defines income to encompass both revenue and gains. On the other hand, the definitions of revenue and expense given in IPSAS 1 do not mention ‘gains’ or ‘losses’, nor are these terms defined.</p> <p>Paragraph 106(a) in ED 38 requires “...the portion of the gain or loss on the hedging instrument... shall be recognized directly in net assets/equity.</p> <p>We believe the wording of the ED should explicitly state that such gains are revenues (and such losses are expenses). Accordingly, we would recommend amending paragraph 106 to state:</p> <p>If a cash flow hedge meets the conditions in paragraph 98 during the period, it shall be accounted for as follows:</p>	<p>Noted. There is a brief discussion in IPSAS 9 (objective paragraph) dealing with revenue, income and gains. However, it is expected that this would be more appropriately dealt with as part of the conceptual framework project than as part of this convergence project.</p>

	<p>(a) The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (see paragraph 98) <u>is a revenue or expense</u> that shall be recognized directly in net assets/equity through the statement of changes in net assets/equity...</p> <p>Other paragraphs that require gains or losses be recognized directly in net assets/equity should be amended in a similar manner.</p>													
<p>007</p>	<p>New Zealand Institute of Chartered Accountants</p>													
	<p>Contractual grant receivable</p> <p>4. Using the guidance in ED 37, paragraph AG18, and ED 38 paragraph AG 90 we have set out our understanding of the initial recognition, initial measurement and subsequent measurement of a contractual grant receivable.</p> <table border="1" data-bbox="283 625 1318 1250"> <thead> <tr> <th></th> <th>Contractual grant receivable</th> <th>Comment</th> </tr> </thead> <tbody> <tr> <td>Initial recognition</td> <td> <p>IPSAS 23 para 31</p> <p>When, and only when, (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and (b) the fair value of the asset can be measured reliably.</p> </td> <td> <p>This requirement differs from ED38 paragraph 16 which would apply to contractual exchange receivables.</p> </td> </tr> <tr> <td>Initial measurement</td> <td> <p>IPSAS 23 para 42</p> <p>At fair value as at <i>the date of acquisition</i>.</p> </td> <td> <p>IPSAS 23 does not address the treatment of the transaction costs.</p> </td> </tr> <tr> <td>Subsequent measurement and derecognition</td> <td> <p>ED38 para AG90</p> <p>Assets and liabilities arising out of contractual arrangements and which otherwise meet the definition of a financial instrument are subsequently measured and recognized in accordance with this Standard (ie ED38).</p> <p>ED38 para 48(a)</p> <p>Loans and receivable are measured at amortized cost using the effective interest method.</p> </td> <td> <p>Transaction costs will affect the subsequent measurement of loans and receivables under ED38.</p> </td> </tr> </tbody> </table> <p>5. We appreciate that it is difficult to align the requirements of these standards. In order to ensure that all financial assets and financial liabilities are recognised and measured consistently, we recommend that the IPSASB specify that initial recognition and measurement of all financial assets and financial liabilities arising from transactions giving rise to both exchange and non-exchange revenue be in accordance with IPSAS XX (ED 38).</p>		Contractual grant receivable	Comment	Initial recognition	<p>IPSAS 23 para 31</p> <p>When, and only when, (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and (b) the fair value of the asset can be measured reliably.</p>	<p>This requirement differs from ED38 paragraph 16 which would apply to contractual exchange receivables.</p>	Initial measurement	<p>IPSAS 23 para 42</p> <p>At fair value as at <i>the date of acquisition</i>.</p>	<p>IPSAS 23 does not address the treatment of the transaction costs.</p>	Subsequent measurement and derecognition	<p>ED38 para AG90</p> <p>Assets and liabilities arising out of contractual arrangements and which otherwise meet the definition of a financial instrument are subsequently measured and recognized in accordance with this Standard (ie ED38).</p> <p>ED38 para 48(a)</p> <p>Loans and receivable are measured at amortized cost using the effective interest method.</p>	<p>Transaction costs will affect the subsequent measurement of loans and receivables under ED38.</p>	<p>Noted. Based on other comment received, issues around the application of IPSAS 23 and ED 38 have been raised for consideration by the Board at its September 2009 meeting as part of key issue 4.</p>
	Contractual grant receivable	Comment												
Initial recognition	<p>IPSAS 23 para 31</p> <p>When, and only when, (a) it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and (b) the fair value of the asset can be measured reliably.</p>	<p>This requirement differs from ED38 paragraph 16 which would apply to contractual exchange receivables.</p>												
Initial measurement	<p>IPSAS 23 para 42</p> <p>At fair value as at <i>the date of acquisition</i>.</p>	<p>IPSAS 23 does not address the treatment of the transaction costs.</p>												
Subsequent measurement and derecognition	<p>ED38 para AG90</p> <p>Assets and liabilities arising out of contractual arrangements and which otherwise meet the definition of a financial instrument are subsequently measured and recognized in accordance with this Standard (ie ED38).</p> <p>ED38 para 48(a)</p> <p>Loans and receivable are measured at amortized cost using the effective interest method.</p>	<p>Transaction costs will affect the subsequent measurement of loans and receivables under ED38.</p>												

013	Accounting Standards Board SA	
	<p>ED 38 <i>Financial Instruments: Recognition and Measurement</i></p> <p>Paragraph 2(f) – Grammar corrections appear to be required in this sentence i.e. “<i>Any forward contracts that results from an agreement...</i>”.</p> <p>AG 3 – This paragraph states that the proposed standard would not apply to financial guarantee contracts issued through an exchange transaction which the issuer has previously explicitly asserted are regarded as insurance contracts. However, paragraph 2(e) indicates that where an issuer of a financial guarantee contract has previously explicitly asserted that such contracts are insurance contracts, that issuer <u>has the choice</u> of whether to apply this proposed standard or the international or national insurance contract standard. We propose that this contradiction between the paragraphs be removed.</p> <p>AG 87 – This paragraph stipulates that the “<i>fair value using a valuation technique would be determined</i>” using a discounted cash flow model. (Emphasis added) There are many different valuation models in existence, so possibly the restriction to using a discounted cash flow model should be removed. I.e. possibly amend the current word “<i>would</i>” to “<i>could</i>”.</p> <p>AG 91 – The paragraph indicates that non-contractual financial guarantees and financial guarantees where the entity is the holder of the contract are not within the scope of the ED. It is suggested that this paragraph be cross-referenced to those standards which would apply to such transactions.</p> <p>Appendix C: C16 – The diagram uses the term “Parent D” rather than ‘Controlling Entity D’, which is the terminology applied in the narrative discussion in this paragraph. As the diagrams have been updated from IFRIC 16 <i>Hedges of a Net Investment in a Foreign Operation</i> to reflect the narrative terminology used throughout this ED, it is suggested that a consistent approach be followed when referring to the parent company / controlling entity D in the diagram.</p> <p>Appendix C: C17 – Reference is made to ‘Entity B’. Similar to the above-mentioned point with reference to consistency, it is suggested that the ED use the term ‘<u>Controlled</u> Entity B’. Similar inconsistencies were identified in paragraphs C18 – C20.</p>	<p>Noted. These will be considered as part of the editorial review of the ED.</p>
015	HoTARAC	
	<p>ED38, “Financial Instruments: Recognition and Measurement”</p> <p>Editorial issues</p> <p><i>Sub-Paragraph 2(g)</i> — The reference to Paragraph 4 should be amended to Paragraph 3.</p> <p><i>Sub-Paragraph 5(b)</i> — Although this omission also exists in IAS 39, it is recommended that Paragraph 5(c) of ED 38 has an extra word included as follows “... the entity has a practice of taking delivery of the underlying item and selling it within a short period</p>	<p>Noted. These will be considered as part of the editorial review of the ED.</p>

	<p><i>Paragraph BCI</i> — The reference to IAS 32 at the end of this paragraph should be amended to “IAS 39”.</p> <p><i>References to LIBOR (London Interbank Offered Rate)</i> — HoTARAC notes that references to “LIBOR” throughout ED 38 have been replaced with other terminology for a public sector context — except for many references to LIBOR throughout the Illustrative Examples and Implementation Guidance sections in the latter part of ED 38.</p> <p>LIBOR is not considered appropriate elsewhere in ED 38, HoTARAC considers the references to LIBOR in the many examples in those sections should similarly be replaced. (HoTARAC notes in this regard that LIBOR appears to be often used as a reference rate for government-to-government loans and in pricing government bond issues).</p> <p><i>Implementation Guidance Example F. 5.6</i>— The heading for this example reads “Cash Flow Hedges: Firm Commitment to Purchase Inventory in a Foreign Currency”. However, certain journal entries on the following pages post amounts to “property, plant and equipment”, rather than inventory. Given the postings to property, plant and equipment may be permissible according to Paragraph 17 of IPSAS 17 <i>Property Plant and Equipment</i>, it is recommended that either the relevant journal postings, or the example heading, be amended for internal consistency in the example.</p>	
<p>017</p>	<p>New South Wales Treasury</p>	
	<p>ED 38, “Financial Instruments: Recognition and Measurement”</p> <p><i>Non-exchange revenue transactions</i></p> <p>We suggest that the IPSASB needs to further consider the implications of its conclusion that non-exchange revenue transactions are initially recognised and measured in accordance with IPSAS 23, but subsequently must be measured in accordance with the proposed financial instruments standard. This is not just confined to the issue of concessionary loans and financial guarantee contracts.</p> <p>The implications and reasons for this decision are not made clear in the basis for conclusions. For example, having made the decision to apply IPSAS 19 in the initial measurement of a non exchange liability in IPSAS 23, why is it appropriate for subsequent measurement to be based on the approach in IAS 39, rather than continuing to use IPSAS 19 and the requirements on ‘changes in provisions’? This needs to be explained / justified.</p> <p>At face value, the recognition and measurement principles of IPSAS 23 do not seem to be consistent with the proposed financial instruments standard. This is because under the proposed Standard, financial assets and liabilities are recognised once an entity becomes a party to contractual provisions, while IPSAS 23 requires an entity to recognise a liability when it is <i>probable</i> there will be an outflow and the amount can be measured reliably.</p> <p>This reflects two potentially different approaches to measurement. The proposed financial instrument standard generally incorporates probability as part of measurement (e.g. financial guarantees), while IPSAS 23 relies on the IPSAS 19 provisions approach. For example, in the past, under IPSAS 19,</p>	<p>Noted. Based on other comments received, issues around the application of IPSAS 23 and ED 38 have been raised for consideration by the Board at its September 2009 meeting as part of key issue 4.</p>

financial guarantees would generally have only been disclosed as contingent liabilities, based on the view that probability is incorporated into the recognition criteria. In contrast, a liability for financial guarantees is recognised at the outset under IAS 39, with probability incorporated into measurement.

This is an issue, particularly where non-exchange expenses (such as non-exchange financial guarantees), which are outside the scope of IPSAS 23, will be recognised in accordance with the proposed standard (based on IAS 39), while non exchange revenues are initially recognised based on IPSAS 23. This could lead to the inconsistent treatment of non-exchange expenses and revenue.

There are also significant interpretation and scope issues regarding the application of the proposed financial instruments standard to non-exchange transactions that need to be further addressed:

- Statutory financial assets and liabilities are excluded from scope. This is addressed in BC8 of ED 37. Therefore, also refer to our submission on ED 37.
- A reference to ‘contracts’ in the context of non-exchange transactions may be problematic. This is because it may not necessarily be straightforward to determine whether or not an arrangement is ‘enforceable’.
- It is unclear whether a conditional return obligation gives rise to a financial asset or financial liability. This is because the concept of a conditional obligation mixes return and performance obligations. Return obligations by themselves may be regarded as a financial liability but a performance obligation is not. The question is, what is being measured?

There may be two views about the nature of a financial liability arising from a non-exchange advance receipt or conditional transfer; i.e.:

- It may be viewed as similar to a stand ready obligation such as a financial guarantee, which is initially recognised at fair value and subsequently measured at the higher of carrying amount and the amount determined in accordance with IPSAS 19; or
- It may be viewed as a non financial guarantee liability which is measured initially at fair value and subsequently at amortised cost.

Similar to the issue with non-exchange expenses, the IPSASB needs to consider the potentially different outcomes and inconsistencies that arise depending on whether non-exchange revenue gives rise to a financial instrument (which must be contractual) or gives rise to assets/liabilities that are outside the scope (e.g. statutory assets/liabilities).

Other

We suggest that application guidance regarding ‘non exchange revenue transactions’ should be relocated *before* the section on ‘concessionary loans’.

We suggest that the IPSASB make specific reference to the “Process for Reviewing and Modifying IASB Documents”, to justify the changes that are being proposed. It is important that the Process is road tested

	<p>every time a modification is made to IASB documents, with the result being that either the Process is amended or the modification does not proceed.</p>	
<p>021</p>	<p>Office of the Comptroller of Ontario</p>	
	<p><i>Background</i></p> <p>The government of Ontario prepares its consolidated financial statements in accordance with accounting principles for senior governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). In Canada, financial reporting standards for financial instruments for federal and provincial governments are still under deliberation by the PSAB. Ontario has already shared its views with PSAB on appropriate standards for financial instruments through the various phases of PSAB’s current project.</p> <p>From Ontario’s point of view, the cost basis is the appropriate basis for measuring financial instruments as it reflects the economic substance of governments activities related to financial instruments and therefore best supports transparency and accountability in government financial reporting, and supports effective fiscal policy decisions. Ontario believes that maintaining the historical cost basis of reporting for financial instruments, supplemented by expanded note disclosure on fair values, and risks associated with financial instruments better meets the needs of users of government financial reports. Unlike commercial entities, governments do not engage in speculative trading behavior. Rather governments have both the intention and ability to hold derivatives to final maturity, with virtual certainty that the accumulated net fair value of these transactions would be zero at maturity. The introduction of fair value accounting would introduce volatility into a government’s annual surplus/deficit results and reduce the accountability value of the reports for users. By disclosing risks associated with derivatives in the notes to financial statements the quality of the government’s statement of operations would be preserved for purposes of comparison with the approved Budgets and Estimates. IPSASB is to be commended for its direction in IPSASB 24 which acknowledges the significance of the Budget and the need to ensure transparency in comparing actual to budgeted results to meet user needs. Since governments do not (and could not) budget for unrealized gains/losses on financial instruments, Ontario’s proposed approach would support a more meaningful and effective comparison between planned and actual results for accountability purposes.</p> <p><i>Net Debt and Fair Value Option</i></p> <p>In regards to governments’ reported net debt positions, we are concerned about the impact of the proposed changes. The financial condition of a government is largely dependent on the economic growth in a jurisdiction relative to its net debt measured over a number of years. The temporary market fluctuations resulting from the inclusion of unrealized fair value gains and losses in a government’s net debt may reduce the meaningfulness of this measure and be incorrectly interpreted by the public, media and the legislators in the short term. In addition, the introduction of measurement categories such as held for trading and available for sale which are not useful categories for the government and the introduction of the fair value option’ under which governments could designate certain financial assets or financial liabilities to be fair valued could create confusion for readers and reduce comparability of reporting among jurisdictions. The limited applicability of the fair value option to fair value hedges only (offset in</p>	<p>Noted. Given the debate internationally at the IASB level, the approach to financial instruments may be simplified significantly. However, it is unlikely that cost will be an acceptable measurement basis.</p> <p>It is also important to note that while all financial instruments are initially measured at fair value, not all are subsequently measured at fair value. Where fair value is used, for example, to reflect the fact that entities may hold certain instruments for trading purposes, this is consistent with existing principles in IPSASs (e.g. IPSAS 16 on investment property where the purpose of holding such property is to earn rental or for capital appreciation). Fair value is also appropriate for transactions such as derivatives when the fair value represents the risks an entity is exposed to over the life of the instrument.</p> <p>Noted. Currently the designation is only allowed to overcome an accounting mismatch between the recognition or measurement of financial assets and financial liabilities; it is not a free</p>

	<p>fair value will not apply to cash flow hedges) means that a government with most of its hedges as cash flow hedges will not benefit from applying this option to mitigate the impact of fluctuations in fair values.</p>	<p>designation. In these circumstances, entities are required to provide sufficient disclosure around why and how the designation at fair value meets these requirements.</p>
024	United Nations	
	<p>ED 38: Scope exclusion applicable to IPSAS 23 Revenue from Non-exchange</p> <p>4 The present wording of the scope exclusion in ED 38 paragraph 2 (j) appears to exclude the application of ED 38 to recognition (initial) and to measurement (both initial and subsequent), but the wording is somewhat ambiguous. It is recommended that the scope exclusion in ED 38 paragraph 2 (j) be amended to make its application clearer.</p> <p><i>Further comment</i></p> <p>5 The word ‘initial’ is probably intended to apply to both recognition and measurement – consistent with commentary in AG19. If so, then this could be made clearer by including ‘initial’ in front of ‘measurement’ as well – see option (1) below. Alternatively, if the intention is to exclude application to all measurement (initial and subsequent), then the exclusion could be clearer by focusing on the rights and obligations rather than their treatment. Three options to clarify the Board’s intentions can be identified as follows:</p> <ol style="list-style-type: none"> 1. Initial recognition and <u>initial</u> measurement of rights and obligations arising from non-exchange revenue transactions to which IPSAS 23 applies; or 2. Initial recognition and measurement (initial and subsequent) of rights and obligations arising from non-exchange revenue transactions to which IPSAS 23 applies; or 3. Rights and obligations arising from non-exchange revenue transactions to which IPSAS 23 applies. 	<p>Noted. Based on other comments received, issues around the application of IPSAS 23 and ED 38 have been raised for consideration by the Board at its September 2009 meeting as part of key issue 4.</p>
025	Australian Accounting Standards Board	
	<p><i>Interaction with IPSAS 23</i></p> <p><u>Recognition</u></p> <p>The AASB suggests that the IPSASB considers whether the principles in the IPSAS equivalent to IAS 39 (ED 38) and IPSAS 23 would result in consistent identification of financial liabilities arising from non-exchange transactions. For example, the AASB notes that, in the circumstances described in paragraph 24 of IPSAS 23 (regarding funds contributed on the stipulation that</p>	<p>Noted. Based on other comment received, issues around the application of IPSAS 23 and ED 38 have been raised for consideration by the Board at its September</p>

the recipient obtains a matching contribution or returns the contribution), a liability would **not** be identified under IPSAS 23, although a financial liability would be identified if the principles in ED 38 were applied.

One interpretation of the effect of scope paragraph 2(j) of ED 38 is that a liability would not be recognised subsequently under the IPSAS equivalent to IAS 39 unless and until a liability is recognised under paragraph 24 of IPSAS 23. Under this interpretation, IPSAS 23 would seem to override the recognition requirements in IAS 39. This interpretation is based on a view that subsequent recognition and measurement of a liability can only occur if the liability has previously been recognised.

Alternatively, scope paragraph 2(j) of ED 38 could be interpreted as requiring subsequent recognition and measurement under the IPSAS equivalent to IAS 39 regardless of how the liability was treated initially. This interpretation is supported by the penultimate sentence of paragraph AG90 of ED 38, which says “Where these assets and liabilities’ arise out of contractual arrangements and otherwise meet the definition of a financial instrument, they are subsequently measured and derecognized in accordance with this Standard.” (This point is reiterated in the last sentence of paragraph BC6 and in paragraph BC7 of the Basis for Conclusions on ED 38.)

The AASB is unsure which of these interpretations was intended by the IPSASB. The AASB suggests that the IPSASB clarifies the interaction of the IPSAS equivalent to IAS 39 and IPSAS 23 in relation to the initial and subsequent recognition and measurement of financial liabilities arising from non-exchange transactions, so that its intentions are clear.

Measurement basis

The AASB notes that ED 38 (paragraph 2(j)) proposes that IPSAS 23 should be applied to the initial measurement of financial assets and financial liabilities arising from non exchange transactions. IPSAS 23 requires:

- (a) an asset acquired through a non-exchange transaction to be measured initially at its fair value as at the date of acquisition (paragraph 42); and
- (b) the amount recognized as a liability to be the best estimate of the amount required to settle the present obligation at the reporting date, consistent with IP SAS 19’s measurement basis for provisions (paragraphs 57 58)

ED 38 proposes that:

- (a) the IPSAS developed from ED 38 should apply to the subsequent measurement of financial assets and financial liabilities arising from non-exchange transactions; and
- (b) with certain exceptions, financial assets and financial liabilities should subsequently be measured at fair value or amortised cost.

That is, “assets and liabilities resulting from non-exchange revenue transactions”.

2009 meeting as part of key issue 4.

	<p>Therefore, on subsequent measurement:</p> <p>(a) financial assets measured at amortised cost would be restated from initial fair value to an amount that takes into account transaction costs directly attributable to the acquisition of those assets (because amortised cost takes into account initial fair value plus directly attributable transaction costs). That is, directly attributable transaction costs would be excluded from initial measurement of those assets but included in their subsequent measurement; and</p> <p>(b) financial liabilities other than ‘advance receipts’ would generally be remeasured from an initial measure determined consistently with IPSAS 19 to their fair value or amortised cost. The AASB considers that these changes in measurement bases from initial measurement to subsequent measurement would be inappropriate, and suggests that the LPSASB reviews these measurement requirements for consistency. One means of avoiding inconsistency would be to amend IPSAS 23 (paragraphs 42 and 57) to specify that, on initial recognition, financial assets and financial liabilities arising from non-exchange transactions should be measured in accordance with the IPSAS developed from ED 38. Such an approach would be consistent with the consequential amendment to IPSAS 23 proposed in IPSASB ED 36 <i>Agriculture</i> to require biological assets and items of agricultural produce acquired through non-exchange transactions to be measured initially and subsequently on a consistent basis.</p>	
<p>027</p>	<p>Comptroller General of British Columbia</p>	
	<p>The IPSASB should consider adopting the following provisions currently available for public sector reporting in Canada:</p> <p>(a) The Canadian Institute of Chartered Accountant’s Handbook (CICA) Section 3865.30-.3 I allows for an analysis of critical terms in a defined hedging relationship as a measure of qualifying for hedge accounting and as ongoing effectiveness testing of hedging relationships (the short cut method). This provision is much more efficient than quantitative testing as a means of assessing hedging effectiveness in the administration of a portfolio of short term credit instruments. Quantitative test is inefficient and burdensome in circumstances in which a large number of short term foreign denominated liabilities are individually hedged for currency risk and rolled over at short term maturity intervals.</p> <p>(b) CICA Public Sector Handbook Section 2600.39 currently allows for synthetic instrument accounting for foreign currency denominated instruments that qualify for hedge accounting. When synthetic instrument accounting is used the domestic dollar equivalent of the synthetic instrument at initial recognition and at subsequent financial statement dates is established by the rate implied by the terms of the hedge(s).</p> <p>These provisions greatly simplify the complexity of hedge accounting for held to maturity financial instruments in the public sector.</p> <p>The added complexity of the hedge accounting standards proposed for the public sector in exposure drafts</p>	<p>Noted. As the IASB has announced its intention to revisit the requirements of hedge accounting in IAS 39, it would be appropriate to reconsider the hedge accounting requirements in ED 38 once these revisions have been finalised.</p> <p>See response in ED 37.</p>

<p>37-3 9 would have a negative impact on the cost benefit analysis of applying hedge accounting. The adoption of exposure drafts 3 7-39 could result in governments implementing less cost efficient financing strategies and ultimately fewer dollars being available for public programs.</p>	
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**SECTION D – ANALYSIS OF SUBMISSIONS RECEIVED ON ED 39,
“FINANCIAL INSTRUMENTS: DISCLOSURES”**

Section D of the analysis of the submissions received, considers respondents’ comments on the specific matter for comment in ED 39 “Financial Instruments: Disclosures” as well as other issues raised.

This analysis is provided in two parts. Part I provides the Staff’s classification of responses on the specific matter raised in ED 39, summarizes key themes emerging from other issues raised by respondents and highlights key issues for consideration by the Board. Part II. Part II provides respondents’ detailed comments as well as Staff’s proposed course of action (which may include deliberation of certain issues at the September 2009 meeting of the IPSASB).

**Part I – Summarised analysis of respondents’ views on ED 39,
“Financial Instruments: Disclosures”**

Background

The IPSASB used IFRS 7 as at the end of February 2009 as a basis for developing ED 39. In particular, the Board requested respondents’ views on the appropriateness of the disclosures in IFRS 7 for the public sector.

Specific matter for comment 1 – Appropriateness of disclosure requirements in IFRS 7 for the public sector

The Board noted in the invitation to comment that it had considered whether any disclosures in IFRS 7 were inappropriate for the public sector, but concluded that there were no public sector specific reasons to depart from IFRS 7. The IPSASB requested views on the following specific matter for comment:

The IPSASB considered all of the required disclosures in IFRS 7 to assess whether any disclosures should be deleted for public sector specific reasons. Examples of disclosures specifically considered include sensitivity analyses and collateral. The IPSAS concluded that there is no public sector specific reason to depart from the requirements of IFRS 7 by deleting any disclosures. Do you agree?

Analysis

Staff’s analysis of the comments received is included at Table I.

Of the 26 respondents, 18 provided specific input on this issue. A total of 16 respondents (89%) agreed with the Board’s position. Only 2 respondents (11%) disagreed, on the basis that certain disclosures in IFRS 7 may have limited usefulness in the public sector.

Of the 16 respondents who agreed with the approach adopted by the Board, some expressed reservations about certain aspects of ED 39. Some of the principal concerns are:

- Overall disagreement with the approach adopted by the Board, but that, based on the IPSASB’s approach, it was appropriate to retain all the disclosures from IFRS 7;
- Respondent’s local requirements differed in certain areas;
- The disclosures should not be applied to all public sector operations. It was indicated by this respondent that it may be appropriate to apply all the disclosures to a public sector entity whose operations are similar to those of a financial institution, while it may be inappropriate for other entities to apply the disclosures in their totality; and
- The effect that the impending revisions to IAS 39 would have on IFRS 7.

The two respondents that disagreed with the approach adopted by the Board noted that some of the disclosures required by ED 39 may not be appropriate and relevant in all instances. One respondent indicated that all the disclosures in ED 39 should be reviewed by the Board, but indicated that the disclosure of the fair value of collateral held and a sensitivity analysis are particularly problematic. The other respondent indicated that the following disclosures should be encouraged rather than required:

- The disclosure of fair values for all financial assets and financial liabilities (paragraph 28) on the grounds that it may be extremely costly for entities to determine the fair values of all financial instruments;
- Paragraph 32(b) to (e) outlining various disclosures on the fair value hierarchy. This disclosure may be more relevant for financial institutions than for public sector entities;
- The presentation of a sensitivity analysis (paragraph 46 and 47). This may be useful for a financial institution, but may be meaningless for public sector institutions unless it is provided in the appropriate context, i.e. what the impact of this would be on service delivery outcomes, tariffs, etc.

Table I – Analysis of comments received in specific matter for comment

	Specific matter for comment	
	Agree	Disagree
Respondent number	001, 002, 005, 006, 007, 008, 011, 012, 015, 016, 017, 018, 019, 022, 025, 026	013, 014
Total	16	2

Key issue 1: Appropriateness of IFRS 7 disclosures for the public sector

Based on comments received, Staff is of the view that while there may be some disclosures that could be encouraged rather than disclosed, the Board should not modify its approach at this stage. It may be appropriate for it to note certain respondents’ concerns, monitor the disclosures provided by entities and, if necessary, re-deliberate the usefulness of these disclosures at a later stage when further public sector issues are considered.

Also, given the impending revisions to IAS 39 and the fact that consequential amendments have been proposed to IFRS 7 as part of those revisions, it may be prudent to wait for the outcome of these disclosures before making decisions about what other disclosures, if any, should be deleted.

Action Required

Members are asked to reaffirm the approach to ED 39.

Other matters

Two respondents raised two separate issues that should be considered by the Board:

- (a) The transitional provisions for ED 39; and
- (b) Whether the disclosure required for concessionary loans granted should also apply to concessionary loans received.

Key issue 2: Transitional provisions for ED 39

ED39.52 states that: “If an entity applies this Standard before Month, Day, Year, it need not present comparative information for the disclosures required by paragraph 37-48 about the nature and extent of risks arising from the financial statements”.

One respondent questioned whether this relief should be extended to all entities that initially adopt ED 39 and not only be limited to those that early adopt.

Staff is of the view that either:

- The requirement should be extended to all entities that adopt ED 39, whether on the effective date or earlier; or
- This paragraph should be deleted and no relief provided from preparing comparative information.

Staff is of the view that it may be appropriate to allow all entities relief from preparing comparative information about the nature and extent of risks arising from financial instruments.

Actions Required

Members are asked to confirm the Staff view that all entities should be provided relief from preparing comparative information about the nature and extent of risks arising from financial instruments.

Key issue 3: Disclosure on concessionary loans granted

Paragraph 36(a) of ED 39 requires entities to disclose a reconciliation of the opening and closing carrying values of concessionary loans granted. One respondent indicated that this disclosure may also be useful for concessionary loans received.

Staff is of the view that there is merit in providing the same disclosure for concessionary loans received, as entities are accountable for the nominal value of the loan owing, and not the discounted value.

Action Required

Members are asked to confirm the Staff view that a disclosure requirement that entities to disclose a reconciliation of the opening and closing carrying values of concessionary loans received.

PART II - Analysis of comment received on ED 39, “Financial Instruments: Disclosures”

Specific matter for comment

The IPSASB considered all of the required disclosures in IFRS 7 to assess whether any disclosures should be deleted for public sector specific reasons. Examples of disclosures specifically considered include sensitivity analyses and collateral. The IPSASB concluded that there is no public sector specific reason to depart from the requirements of IFRS 7 by deleting any disclosures. Do you agree?

001	Comité des Normes de Comptabilité Publique	
	We agree that there <i>is</i> no public sector specific reason to depart from the requirements of IFRS 7 by deleting any disclosures. Since the IASB has begun to work on the basics of accounting for financial instruments, we believe it is inappropriate at this time to transpose a standard whose fundamental issues could be changed in the coming months to the public sector. Moreover, IFRS 7 is extremely complex, particularly to address the sophisticated operations of financial institutions. As an illustration, should question the relevance of meaningful sensitivity analysis for the public sector.	Noted. General agreement with the approach adopted in ED 39 even though the respondent disagrees with the overall convergence approach adopted by the IPSASB. No further action required.
002	Swiss Public Sector Financial Reporting Advisory Committee	
	We are of the view that all disclosure items should be retained, however, not as a unconditional requirement. Many items are applicable only for some types of operation (e.g. commercial banks), which may well exist in the public sector. However, they are onerous to entities which do not have this type of operation, even though they may have a small number of such financial instruments. However, the principle based style of ED 39 still requires them to prepare useless disclosure information at high cost. We therefore suggest that the disclosure be required only if the relevant type of operation exists.	Noted. This issue has been highlighted to the Board for consideration at the September meeting (key issue 1).
003	The OPEC Fund for International Development	
	No comment.	Noted.
004	J Maresca	
	No comment.	Noted.
005	Fédération des Experts Comptables Européens	
	We agree.	Noted.

006	Public Sector Accounting Board	
	We agree. In the exposure draft it recently approved, PSAB generally adopted the required disclosures set out in IFRS 7. In certain areas, IFRS 7 requirements were streamlined where they served to provide readers with information to support designations to specific financial instrument categories, as PSAB proposes to limit the available financial instrument measurement categories to fair value and, cost or amortized cost.	Noted.
007	Financial Reporting Standards Board (New Zealand)	
	The FRSB agrees that there is no public sector specific reason to delete any disclosures from IFRS 7. The FRSB supports the disclosures proposed in paragraph 36.	Noted.
008	Institute of Chartered Accountants of Scotland	
	We agree that there is no public sector specific reason for excluding any of the disclosures required by ED 39.	Noted.
009	Dutch Local Government Accounting Standards Board (Commissie BVV)	
	No comment.	Noted.
010	J Maresca	
	No comment.	Noted
011	Cour des Comptes, France	
	We agree that there is no public sector specific reason to depart from the requirements of IFRS 7 by deleting any disclosures. However, we mention that this standard is complex and detailed, and that its transposition to public sector entities can be difficult and require a cost-benefits analysis.	Noted
012	Accounting Standards Board UK	
	We agree with IPSASB's conclusion that there are no public sector specific reasons to depart from the disclosure requirements of IFRS 7. We would however note the IASB's review of IAS 39 may result in less onerous disclosure requirements being introduced and that these may be appropriate for public sector entities. This is something that IPSASB might consider as it takes forward its work on financial instruments.	Noted.

013	Accounting Standards Board South Africa	
	<p>We are of the view that certain disclosures in IFRS 7 could be encouraged rather than required. The following disclosures in particular could be encouraged rather than required:</p> <ul style="list-style-type: none"> • The disclosure of fair values for all financial assets and financial liabilities (paragraph 28). It may be extremely costly for entities to determine the fair values of all financial instruments. • Paragraph 32(b) to (e) outlining various disclosures on the fair value hierarchy. This disclosure may be more relevant for financial institutions than for public sector entities. <p>The presentation of a sensitivity analysis (paragraph 46 and 47). Again, this may be useful for a financial institution may be meaningless for public sector institutions unless it is provided in the appropriate context, i.e. what the impact of this would be on service delivery outcomes, tariffs, etc.</p>	<p>Noted. This issue has been highlighted to the Board for consideration at the September meeting (key issue 1)</p>
014	European Commission	
	<p>We understand that the approach not to delete any disclosure requirements in IFRS 7 is consistent with the approach for ED 37 and 38. We are also of the opinion that disclosures about a public sector entity's exposure to risks is useful to readers of the financial statements. However, it should be noted that the main objective behind IFRS 7 is to enable the users of private sector financial statements to assess the amount, timing and uncertainty of its future cashflows (IFRS 7 .1N2). These information needs are different from that of readers of public sector financial statements. Investors, as the most important users of IFRS financial statements, need information about future cash flows and especially cash outflows in a worst case scenario as basis of their discounted cash flow analysis or thus their investment decisions (F.9). Consequently, IFRS 7 was designed to meet these information needs.</p> <p>The European Communities (EC) just like other international organisations is a supranational non-profit entity; it is not its objective to generate profit. The main goal of this kind of public sector entity is to establish and encourage political actions. The annual budget is foreseen to fund the entity and the annual accounts are required to give a true and fair view of the activities of the financial period. Unlike in the private sector the users of the annual accounts of public sector entities do not need information as a basis for a discounted cash flow analysis. The importance of fair value disclosures for financial instruments accounted for at cost is minor. What the users of public sector financial statements do need is information about risks arising from financial instruments but not all risk disclosures in the scope of IFRS 7 are applicable in the public sector. It is probable most public sector institutions such as governments have no difficulties with their creditworthiness or prospects of obtaining future loans.</p> <p>We therefore encourage IPSASB to review ED 39 again and to think about some modifications (e.g. regarding sensitivity analysis, collateral).</p>	<p>Noted. This issue has been highlighted to the Board for consideration at the September meeting (key issue 1).</p> <p>The disclosures on collateral only apply where an entity holds collateral and are not onerous. The sensitivity analysis presented is based on how management manages the risks of the entity and are also not onerous. They can also be appropriately contextualized to an entity's operations so that they are meaningful.</p>

015	HoTARAC	
	<p>HoTARAC agrees that there is no reason to delete any of the IFRS 7 disclosures. The majority of HoTARAC members support the additional disclosure requirements set out in ED 39. HoTARAC, however, recommends that the IPSASB clarify whether the additional disclosure is to be provided at a loan level or a consolidated level (the latter being HoTARAC’s preference, as it is the most practical approach). A minority of HoTARAC members consider that the current level of disclosure is sufficient and contemplated in IAS 39 Application Guidance and therefore do not support including additional disclosure requirements for concessional loans.</p> <p>Regarding the option available under Paragraph AG6, HoTARAC strongly believes that all financial instrument risk disclosures should appear in the audited financial statements. By way of example, Australian entities must disclose all financial instrument risks in the financial statements as the Australian Accounting Standards Board’s legal authority does not extend beyond setting Accounting Standards for application to the financial statements and associated notes. Therefore the option to disclose certain risks in a place beyond the boundaries of the audited financial statements and notes is not permitted in Australia.</p>	<p>Agreed. This is unclear from paragraph 36. Wording will be added to clarify that management should use its judgement in assessing the appropriate level of aggregation for the disclosure.</p> <p>Noted, however this may vary between jurisdictions. Other IPSASs allow similar cross-references, e.g. IPSAS 24, “Presentation of Budget Information in Financial Statements.”</p>
016	Japanese Institute of Certified Public Accountants	
	We agree with this proposal.	Noted.
017	New South Wales Treasury	
	<p>Yes, NSW Treasury agrees there is no reason to delete any of the IFRS 7 disclosures. Moreover, we do not support including additional disclosure requirements for concessionary loans as we feel this issue is already contemplated in the Application Guidance to IFRS 39.</p> <p>Refer also to comments made in response to ED 38 on application guidance re financial guarantee contracts not in IFRS 7.</p> <p>Paragraph AG6 of the Application Guidance in ED 39 provides an option relating to the location of risks disclosure requirements. The paragraph states that the disclosure requirements may appear either in the financial statements or by cross reference to some other statement, such as a management commentary, that is available to users of the financial statements on the same terms as the financial statements and at the same time. This option was deleted by the Australian Accounting Standards Board (AASB). In Australia, the disclosures must appear within the financial statements.</p> <p>The Basis for Conclusions to IFRS 7 discusses the location of disclosures of risks at paragraphs BC43-BC46. Many respondents to the ED argued that risks disclosures should not be part of the financial</p>	<p>Noted, this disclosure was included at the request of various stakeholders during the initial consultation on the project. In many jurisdictions, officials are held accountable for the nominal value of loans granted and not the fair value. This therefore provides important information for accountability purposes.</p> <p>Noted, however this may vary between jurisdictions. Other IPSASs allow similar cross-references, e.g. IPSAS 24, “Presentation of Budget Information in Financial Statements.”</p>

	<p>statements because:</p> <ul style="list-style-type: none"> ▪ the information would be difficult and costly to audit; ▪ the information is subjective, forward- looking and based on management’s judgement; and ▪ including such information in the financial statements would not be consistent with other jurisdictions, including the US. <p>The IASB provides the option at paragraph AG6. The AASB deleted the equivalent paragraph from AASB 7 because the AASB’s legal authority does not extend beyond setting accounting standards for application to the financial statements and associated notes and therefore, does not extend to the type of report contemplated in paragraph B6 of IFRS 7 (AASB Regulation Impact Statement, 2005).</p> <p>We therefore agree with the current AASB status; i.e. all financial instrument risks disclosures should appear within the financial statements.</p>	
018	Association of Chartered Accountants (ACCA)	
	<p>In relation to the disclosure of collateral there would appear no reason to depart from the requirements of IFRS 7. Financial statements should disclose financial or non-financial assets during the period by taking possession of collateral it holds as security or guarantees. Both the nature and amount of the assets together with policies for disposing of such assets or for using them in its operations should be disclosed as set out in the standard.</p> <p>It should be considered best practice for public bodies to undertake sensitivity analysis as part of financial management planning and treasury management. ACCA believes it is critical for managing risk. The recent Icelandic bank fiasco in the UK where local authorities were over exposed in one bank and failed to update market intelligence goes to demonstrate why sensitivity analysis is important and a disclosure note would help to promote public confidence in the stewardship of public funds.</p> <p>In local government alone in the UK there are around 500 local authorities that manage £60 billion of debt and £31 billion of cash balances and investments. ACCA considers that it would be good practice to include both quantitative and qualitative statements as set out in paragraph 39 (ED 39) which sets out at the time of reporting a public body’s susceptibility to market, interest or currency risk. This would help to strengthen the treasury risk management process.</p>	Noted.
019	Audit Commission UK	
	<p>The Board’s conclusion that there are no public sector specific reasons to depart from the disclosure requirements of IFRS 7 appears valid.</p>	Noted. No further action required.

020	Treasury Board of Canada	
	No comment.	Noted.
021	Office of the Comptroller of Ontario	
	No comment.	Noted.
022	CIPFA	
	We agree.	Noted.
023	Ministry of Finance, Quebec	
	No comment.	Noted
024	United Nations	
	No comment.	Noted.
025	Australian Accounting Standards Board	
	Yes. The AASB agrees that there is no public sector specific reason to depart from the requirements of IFRS 7 and therefore all the disclosure requirements should be retained.	Noted.
026	NIVRA	
	We agree.	Noted.
027	Comptroller General of British Columbia	
	For the reasons mentioned in the letter, we generally oppose recommendations that require fair value accounting in the public sector financial statements. It is our opinion that the objectives of government policy are not adequately represented by reporting short term changes in market value and that unlike financial reporting in the private sector, fair value disclosures in public sector accounting introduce artificial volatility to the operating statement that is misleading to financial statement users. In general, financial liabilities incurred by governments are intended to be held to maturity and the amortized cost of these liabilities and related hedging arrangements in the statement of financial position are a better representation of the government obligations. Fair value changes, except for impairments, of financial	Staff notes respondent's general disagreement with the approach adopted by the IPSASB, in particular, the use of IFRSs as a basis for public sector accounting standards. Fair values are appropriate for the measurement of certain financial instruments, for example, complex derivatives and those held for trading. It is also important to note

	<p>assets or financial liabilities that occur before maturity are better disclosed in notes to the financial statements. Impairments to financial instruments should be recognized in the statement of financial performance.</p>	<p>that the exposure drafts do not require measurement of all financial instruments at fair value.</p>
<p><i>Other matters</i></p>		
<p>004</p>	<p>Dr J Maresca</p>	
	<p>ED39, “Financial Instruments: Disclosures”</p> <p>(1) P. 10 IN3 This part discusses the management of risk. There should be a reference made to volatility as measured by the VIX index to provide better information for readers of the financial statements. An added concern is business interruption and insurance thereof, as well as risks due to Acts of G-d like hurricanes in Asian zones and elsewhere. 3(a) The reference to joint ventures should provide a discussion on the governing legal venue and international law applicable in individual circumstances.</p> <p>(2) P. 12 should make reference to rights , obligations and RECOURSE under insurance contracts.</p> <p>(3) P. 14 discusses loan receivables, surplus or deficit and the disclosure of credit risk. There should be a reference to recourse (the party who bears the risk ultimately) as well as whether or not courts have historically disturbed the contractual relationship in order to redirect risk to the originating parties. The local legal counsel should be cognizant of how the courts will interpret risk given a well defined set of circumstances. (stare decisis)</p> <p>(4) Collateral: The Statement should provide guidance on volatility concurrent with the fair value of collateral held. pp. 17 Defaults and Breaches: Add disclosure on guidance for Loans to Executives, Loans under Prime or Non-Accrued Loans that are not Concessionary Loans in nature.</p> <p>(5) pp. 25 When "sensitivity analysis" is unrepresentative of the financial environment, there should be a discussion of contingencies which trigger or can foreseeably result in risk to financial stakeholders.</p>	<p>(1) Noted. The VIX index is the Chicago Board Options Exchange Volatility Index, a popular measure of the implied volatility of S&P 500 index options and as a result is not an appropriate measure for all financial instruments. Entities would however describe how volatility is calculated in the notes to the financial statements. It is also important to note that general business risks are excluded from ED 39; ED 39 focuses only on financial risk, specifically credit, liquidity and market risk.</p> <p>(2) As insurance contracts are scoped out of ED 39, this wording is too detailed for ED 39 which deals only with financial instruments.</p> <p>(3) Noted. This may vary depending on the circumstances and jurisdiction. As the ED is principles based it is more appropriate to refer widely to risk and allow entities to determine what risks are prevalent and what disclosures are important.</p> <p>(4) Noted. Loans to disclosures are part of the related party disclosures in IPSAS 20, while loans under prime would be concessionary loans if the rate is not market related. Under ED 38 is not likely that “non-accrued” loans would exist (either the entity has an obligation or not).</p> <p>(5) Noted. This may vary depending on the</p>

	<p>DEFINITIONS: There should be a disclosure of the impact of renegotiated rates due to government mandate or Court mandate or even changes in the host country regulatory environment or host country bourses.</p> <p>148C: This part should make reference to the Quasi-Reorganization with respect to capital requirements and adherence to new or re-defined missions or court supervised adherence to the current mission.</p>	<p>circumstances and jurisdiction. As the ED is principles based it is more appropriate to refer widely to risk and allow entities to determine what risks are prevalent and what disclosures are important.</p> <p>This risk must form part of the list of financial risks described in ED 39 for it to be included in the ED. If not, it is outside the scope of this ED.</p> <p>The reference is to 18(c): this is an issue of prudential regulation rather than standard setting.</p>
008	Institute of Chartered Accountants of Scotland	
	<p>Paragraph IN4 gives financial institutions as examples of public sector entities which hold complex financial instruments. However, we question whether financial institutions are a good example. We understand that financial institutions which are considered to be controlled by government are likely to be Government Business Enterprises and therefore not eligible to adopt IPSASs. It may be more appropriate to refer to the Exchequer or Ministry of Finance.</p> <p>Paragraph 44 of ED 39 refers to transitional arrangements for the standard. We agree that it is reasonable to give public sector entities dispensation from preparing comparative information on the nature and extent of risks arising from financial instruments. However, rather than limit this to periods commencing before a certain date we would support extending this to all entities adopting this standard for the first time.</p>	<p>Agreed. This will be amended as part of the editorial review of the ED.</p> <p>Noted. This has been added as an issue for consideration at the September Board meeting (key issue 2).</p>
013	Accounting Standards Board SA	
	<p><i>ED 39 Financial Instruments: Disclosures</i></p> <p>Paragraph 3 (c)(iii) – The grammar of the sentence may require rewording as the current reading of the sentence does not appear to make sense. As currently written, the text reads <i>‘However, this Standard applies to <u>an issuer shall apply this Standard to financial guarantee contracts issued through exchange transactions...</u>’</i>. A suggested rewording is: <i>‘However, this Standard applies to financial guarantee contracts issued through an exchange transaction if the issuer applies IPSAS XX (ED 38)...’</i>.</p> <p>Paragraph 36 details the disclosure required for concessionary loans <u>granted</u> by an entity as well as examples of such loans. It is suggested that there should also be disclosure requirements for concessionary loans <u>received</u> by an entity. It is believed that the following information would be useful to users when considering the concessionary loans received by an entity: nominal value of new loans</p>	<p>Noted. These will be revisited as part of the editorial review of the ED.</p> <p>Noted. This will be raised as an issue for consideration by the Board at its September meeting (key issue 3).</p>

	<p>received in the period; the difference between the fair value of the loan received at initial recognition and the proceeds recognised in terms of IPSAS 23; concessionary loans repaid during the period; interest expense arising from the concessionary loan; nominal value of the loans at the end of the period; terms of the loans received and valuation assumptions.</p> <p>Paragraph 50 – There is a grammar error in the sentence. The current word “<u>sector</u>” should be “<u>Sector</u>”.</p> <p>Paragraph AG5(h) – It is proposed that clarification be made as to whether the disclosure requested relates to the initial or subsequent measurement of financial guarantees issued at no or nominal consideration.</p>	<p>Agreed, this will be clarified.</p>
<p>015</p>	<p>HoTARAC</p>	
	<p>ED 39, “Financial Instruments: Disclosures”</p> <p>Editorial Issues</p> <p><i>Sub-Paragraph 3(a)</i> — All remaining references to subsidiaries need to be replaced with controlled entities.</p> <p><i>Sub-Paragraph 3(b)</i> — The reference to IPSAS 26 needs to be amended to IPSAS 25.</p> <p><i>Sub-Paragraph A G5(h)</i> — Given the discussion in paragraphs AG96 and BC12 of ED 38 regarding the application of IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i>, it is recommended that sub-paragraph AG5(h) of ED 39 be re-worded to “For financial guarantee contracts at no or nominal consideration, where no fair value can be determined and a provision has been recognised in accordance with IPSAS 19, disclosure of the circumstances resulting in a provision being recognised”. The current wording could be interpreted as implying a contingent liability note disclosure is not possible.</p> <p><i>Example 1G36</i> — All references to revenue or other revenue need to be amended to refer instead to net assets/equity.</p>	<p>Noted. These will be reviewed as part of the editorial review of the ED.</p>

CONDENSED ANALYSIS OF RESPONDENTS

Geographical region	Functional						Language	Total
	Preparer	Audit Office	Standard Setter/Standards Advisory Group	Member or Regional Body	Accountancy Firm	Academic		
AFRICA AND MIDDLE EAST	-	-	1	-	-	-	Eng	1
ASIA	-	-	-	1	-	-	Non-Eng	1
AUSTRALASIA AND OCEANIA	2		2				4 Eng	4
EUROPE	1	2	4	5	-	-	5 Eng 5 Non-Eng 2 Comb	12
LATIN AMERICA AND CARIBBEAN	-	-	-	-	-	-	-	0
NORTH AMERICA	2	2	1			1	6 Eng	6
INTERNATIONAL	2						2 Comb	2
Total	7	4	8	6	-	1	16 Eng 6 Non-Eng 4 Comb	26
Percentage of total	27%	15%	31%	23%	-	4%	62% Eng 23% Non-Eng 15% Comb	
AFRICA AND MIDDLE EAST								
Accounting Standards Board (SA)				X				Eng
ASIA								
Japanese Institute of Certified Public Accountants					X			Non-Eng
AUSTRALASIA AND OCEANIA								

Geographical region	Functional						Language	Total
	Preparer	Audit Office	Standard Setter/Standards Advisory Group	Member or Regional Body	Accountancy Firm	Academic		
Financial Reporting Standards Board (New Zealand)				X				Eng
HOTARAC	X							Eng
New South Wales Treasury	X							Eng
Australian Accounting Standards Board				X				Eng
EUROPE								
Accounting Standards Board UK				X				Eng
ACCA				X				
Comité des Normes de Comptabilité Publique				X				Non-Eng
Cour des Comptes (France)		X						Non-Eng
Dutch Local Government Accounting Standards Board (Commissie BVV)				X				Non-Eng
Fédération des Experts Comptables Européens					X			Comb
Institute of Chartered Accountants of Scotland					X			Eng
Swiss Public Sector Financial Reporting Advisory Committee				X				Non-Eng
European Commission	X							Comb
Audit Commission (UK)		X						Eng
CIPFA (UK)					X			Eng
NIVRA (Netherlands)					X			Non-

Geographical region	Functional						Language	Total
	Preparer	Audit Office	Standard Setter/Standards Advisory Group	Member or Regional Body	Accountancy Firm	Academic		
							Eng	
LATIN AMERICA AND THE CARIBBEAN								
No respondents								
NORTH AMERICA								
Public Sector Accounting Board				X			Eng	
Dr Joseph S. Maresca						X	Eng	
Treasury Board of Canada	X						Eng	
Office of the Comptroller of Ontario		X					Eng	
Ministry of Finance, Quebec	X						Eng	
Comptroller-General of British Columbia		X					Eng	
INTERNATIONAL								
The OPEC Fund for International Development	X						Comb	
United Nations	X						Comb	

BREAKDOWN OF RESPONDENTS

Purpose of this Paper:

The following is staff’s analysis of the 26 responses received to ED 37, “Financial Instruments: Presentation”, ED 38, “Financial Instruments: Recognition and Measurement” and ED 39, “Financial Instruments: Disclosures”. * It is not intended as a replacement for an analysis of the substance of the responses. Copies of the responses are provided as Agenda paper 6.1

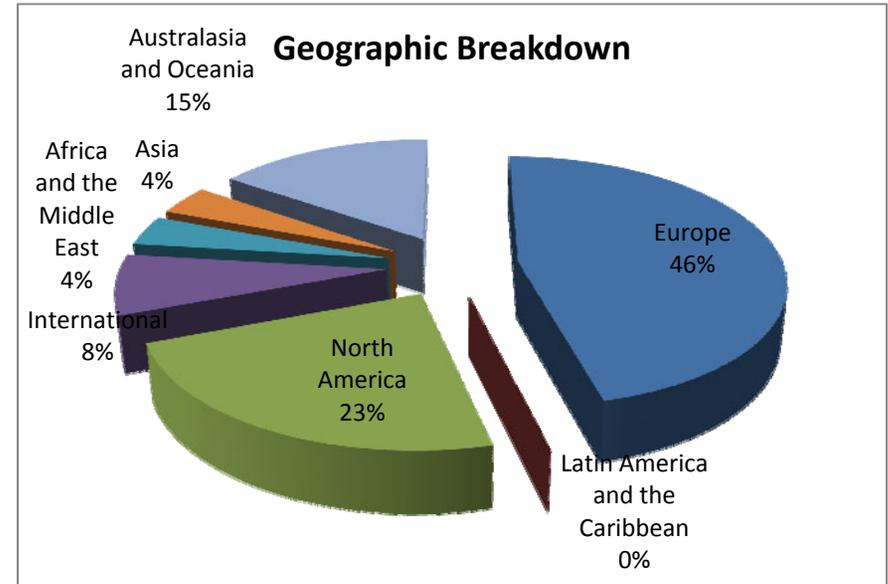
List of Respondents:

Response no.	Respondent Name		
		14	European Commission
		15	Australian Heads of Treasuries Accounting and reporting Advisory Committee (HoTARAC)
1	Comité des Normes de Comptabilité Publique		
2	Swiss Public Sector Financial Reporting Advisory Committee	16	Japanese Institute of Certified Public Accountants
3	The OPEC Fund for International Development	17	New South Wales Treasury
4	Dr Joseph S. Maresca*	18	Association of Chartered Certified Accountants (ACCA)
5	Fédération des Experts Comptables Européens	19	Audit Commission (UK)
6	Public Sector Accounting Board (Canada)	20	Treasury Board of Canada
7	Financial Reporting Standards Board (New Zealand)	21	Office of the Comptroller of Ontario
8	Institute of Chartered Accountants of Scotland	22	CIPFA (UK)
9	Dutch Local Government Accounting Standards Board (Commissie BVV)	23	Ministry of Finance, Quebec
10	Dr Joseph S. Maresca*	24	United Nations
11	Cour des Comptes: (France)	25	Australian Accounting Standards Board
12	Accounting Standards Board UK	26	NIVRA (Netherlands)
13	Accounting Standards Board SA	27	Comptroller-General of British Columbia (Canada)

*For purposes of the number of respondents, this has been reduced to **26** in total as submissions 4 and 10 are both from J Maresca.

Geographic Breakdown:¹

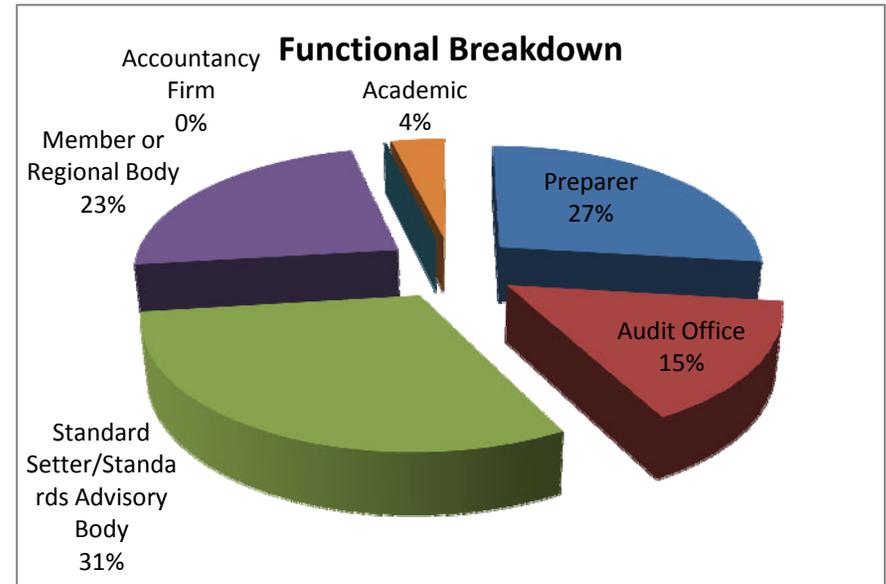
Location	Response no.	Total
Africa and the Middle East	13	1
Asia	16	1
Australasia and Oceania	7, 15, 17, 25	4
Europe	1, 2, 5, 8, 9, 11, 12, 14, 18,19, 22, 26	12
Latin America and the Caribbean		0
North America	4 (10), 6, 20, 21, 23, 27	6
International	3, 24	2
Total		26



¹ The geographic breakdown used is the same as that used in IPSASB’s Agenda Paper 1.4, “Report on IPSASB Communications and Liaison Activities” and in the IFAC document, “Call for Nominations for IFAC Boards and Committees in 2010,” at http://web.ifac.org/download/2_Call_for_Nominations_2010.pdf

Functional Breakdown:

Function	Response no.	Total
Preparer	3, 14, 15, 17, 20, 23, 24	7
Audit Office	11, 19, 21, 27	4
Standard Setter/Standards Advisory Body	1, 2, 6, 7, 9, 12, 13, 25	8
Member or Regional Body	5, 8, 16, 18, 22, 26	6
Accountancy Firm		0
Academic	4 (10)	1
Total		26
Function	Response no.	Total



Linguistic Breakdown:

Language	Response no.	Total
English-Speaking	4 (10), 6, 7, 8, 12, 13, 15, 17, 18, 19, 20, 21, 22, 23, 25, 26, 27	17
Non-English Speaking	1, 2, 9, 11, 16	5
Combination	3, 5, 14, 24	4
Total		26

