



Agenda Item 3: Public Sector Specific Financial Instruments

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Objective of Agenda Item

Consider and provide directions on key issues

Materials Presented

- Agenda Item 3.1 Issues Paper
- Agenda Item 3.2 Draft CP: Currency in Circulation & Monetary Gold Chapters

Reserve Asset Definition (Paras 5 – 9) 1/2

- Feedback in September – reserve asset definition not sufficiently aligned with GFS
- TBG and staff considered revisions – concerns regards to using GFS terminology
- IMF provided wording for consideration
 - *Staff view:*
 - Proposed IMF wording should be considered to ensure GFS alignment
 - Different approaches can be considered - such as footnotes and descriptions to explain IPSAS accounting - GFS terminology bridge

Reserve Asset Definition (Paras 5 – 9) 2/2

Matter for Consideration:

- *Indicate which of the two proposed definitions and descriptions is preferred, those in paragraphs 3.26 and 3.28 or the alternatives in boxes following those paragraphs.*

Monetary Gold – SMC (Paras 10 – 11)

Specific Matter for Comment – Chapter 3-1

(a) Should the IPSASB prescribe measurement requirements in accordance with:

- (i) Option 1: Measurement at market value; or
- (ii) Option 2: Measurement at historical cost?

(b) Should the IPSASB allow preparers to designate an option based on intentions in holding the assets?

Matter for Consideration:

- *Agree with the revised SMC, or suggest amendments*

Currency Arrangements (Paras 12 – 13)

- Types of currency arrangements:
 - Dollarization – para 2.16 of the CP
 - Foreign currency mixed with domestic – para 2.17 of the CP
 - Currency union – para 2.18 of the CP

Matter for Consideration:

- *Confirm if types of currency arrangements are appropriately identified and explained in the CP, or suggest amendments.*

Nature of Currency (Paras 14 – 15)

- Paragraphs 2.19-2.23 of CP consider purpose and function of notes and coins
- Notes and coins derive value because they are legal tender and accepted as a medium of exchange – serve same purpose and function

Matter for Consideration:

- *Indicate if it agrees with the analysis and conclusion that coins and notes serve same purpose and function*

Currency – Option 1: Liability (Paras 16 – 26) (1/4)

- Based on direction at the Sept 2015 meeting – revised approach - conceptual options developed
- Appendix C of the CP - process for considering the conceptual options

Liability

- Past event – issuance of currency
- Existence of present obligation for on outflow of resources – key issue
- Legal or non-legal binding obligation

Currency – Option 1: Liability (Paras 16 – 26) (2/4)

Legal obligation

- Laws set out requirements and responsibilities for monetary authorities
- Paras 2.36–2.41 set out factors that give rise to legally binding obligation
- Absence of laws and regulations – consider non-legally binding obligation

Currency – Option 1: Liability (Paras 16 – 26) (3/4)

Non-legally binding obligation

- Factors which may give rise to a non-legally binding obligation considered in paras 2.43-2.52
 - Indication entity willing to accept certain responsibilities
 - Creation of a valid expectation
 - Little or no realistic alternative to avoid an outflow

Currency – Option 1: Liability (Paras 16 – 26) (4/4)

Matters for Consideration:

- *Confirm support for the analysis related to the factors that give rise to recognition of a liability*
- *Confirm support for the analysis related to the factors which rise to a legal or non-legally binding obligation*

Currency – Option 1: Measurement (Paras 27 – 30)

- Historical cost / Market value = cumulative face value of currency issued
- Cost of fulfillment = expected cost of replacement currency

Matters for Consideration:

- *Confirm support for the analysis related to the various measurement bases*
- *Indicate if it has a view as to which measurement basis is appropriate*

Currency – Option 2: Revenue (Paras 31 - 35) (1/2)

- Absence of an obligation – consider revenue
- Paras 2.61 – 2.66 of the CP discuss the revenue option
- Issuance of currency results in increases in net financial position
- Currency holders get a fixed amount of currency (face value) – not an ownership interest

Currency – Option 2: Revenue (Paras 31 - 35) (2/2)

- Revenue measured at cumulative face value of currency issued, which is equal to consideration received when issued

Matters for Consideration:

- *Confirm support for the analysis related to Option 2: revenue*
- *Confirm support for measurement at cumulative face value of currency issued*

Currency – Option 3: Other Obligation (Paras 36 - 37)

- Staff and TBG also considered a 3rd Option: other obligation and concluded it was not viable

Matter for Consideration:

- *Confirm agreement with decision not to include another option for other obligations*

Chapter 4: IMF Transactions (Paras A.1 – A.14) (1/5)

- Para A.1 – Proposed structure for chapter 4
- Paras A.2-A.11 – Background Information on IMF reserve position and Special Drawing Rights
- Paras A.12-A.14 – Issues related to development SDRs, SDR obligations, IMF quota subscription
- Need for examples

Matter for Consideration:

- *Discuss and provide directions on issues in Appendix A of the CP*

Chapter 4: IMF Transactions: Background (Paras A.2 – A.14) (2/5)

- IMF Quota
 - Subscription
 - Voting power
 - Access to financing

- SDRs
 - Low cost method of adding to members international reserves
 - Not available to purchase goods
 - Interest earned or charged – depending on amount of SDRs

Chapter 4: SDRs (A.12) (3/5)

Do SDRs meet Conceptual Framework (CF) asset definition

Meet the definition of other CF elements

Appear similar to reserve assets – possibly FI's as defined in IPSAS

In practice, accounted for as forex, revalued based on basket of SDRs currencies (market value)

Chapter 4: SDR Obligations (A.13) (4/5)

Do SDR obligations meet Conceptual Framework (CF) liability definition

Meet the definition of other CF elements

Appear similar to a loan – possibly FI's as defined in IPSAS

In practice, accounted for as loan denominated in forex – Historical cost revalued based on changes in SDRs

Chapter 4: SDR Obligations (A.14) (5/5)

Does IMF quota subscription meet the Conceptual Framework (CF) definition of an asset or ownership contributions

Other CF elements they qualify as

Appear similar to a financial investment, possibly an equity instrument – appear to be financial instruments under current IPSASs

In practice, appear to be accounted for as financial assets



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