



Agenda Item 7: Financial Instruments

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December 6-9, 2016

IPSASB Meeting

Stellenbosch, South Africa

Session Outline

- Project management (7.1.1-7.1.3)
- ED development and specific issues (7.2.1-7.2.4)
- Instructions from September 2016 Meeting Actioned (7.2.5)
- Draft ED (7.10) – any additional comments
- CAG Update

7.1.1 Project Management

September 2016:

- Agreed classification & measurement

December 2016:

- Review & agree hedging, transition, & BCs

March 2017:

- Approval of authoritative guidance & amendments to other IPSASs

April 2017 TBG Meeting:

- April 19-21 at The Royal Netherlands Institute of Chartered Accountants

June 2017:

- Approval of draft ED

7.1.2 Decisions from September – Recap

Topic	IPSASB Agreement	Key points of discussion
<i>Approach & Terminology</i>		Revenue, fair value, management model
<i>Classification Model</i>		Principle-based guidance
<i>Measurement Model</i>		Outcome of classification; fair value
<i>Expected Credit Loss Impairment Model</i>		Applicability to public sector

7.2.1 ED Development – Hybrid Instruments (1/4)

- What is a hybrid instrument
- Differences in accounting

IPSAS 29	ED (IFRS 9)
<ul style="list-style-type: none"> • Separation (bifurcation) assessment • If required to separate, account for embedded derivatives on a stand-alone basis • Option to account for entire instrument at fair value through surplus or deficit 	<ul style="list-style-type: none"> • No bifurcation • Classify & account for in entirety • Application of guidance consistent with other F.I.s

7.2.1 ED Development – Hybrid Instruments (2/4)

- New requirements introduced due to:
 - Significant cost and effort in identifying and separating embedded derivatives
 - Reliability of estimating fair value of embedded components
 - Entities often designate at fair value through surplus and deficit for simplicity

7.2.1 Hybrid Instruments – Puttable Instruments (3/4)

What are puttable instruments?

Capital subscriptions with redemption features

Classification & Measurement proposed in ED (holder):

- Financial asset – equity or debt
- SPPI & Management model
- Fair value measurement – often redemption price

7.2.1 Hybrid Instruments – Concessionary Loans with Contingent Payment Features (4/4)

- Concessionary loans
 - A) Terms that give rise to fixed and determinable cash flows
 - Basic lending arrangement → pass SPPI → amortized cost possible
 - B) Terms that give rise to contingent cash flows
 - Unpredictable cash flows → likely fail SPPI → fair value through surplus or deficit
 - Fair value more faithfully reflects uncertainty in timing and amount of cash flows
 - Amortized cost provides less relevant information and is challenging to implement in this case

Matter for consideration:

Does the IPSASB agree with the proposals for hybrid instruments in the ED?

7.2.2 ED Development – Hedge Accounting

Principle-based requirements

Hedging
Instruments

More inclusive: permits non-derivative FIs at fair value through surplus/deficit

Hedged Items

More inclusive: permits risk components of non-financial items and synthetic and net positions

Hedge
Effectiveness Test

More principle-based: removal of quantitative thresholds and retroactive testing, and permits use of existing risk management documentation

Option for entities to continue to apply hedge accounting requirements in IPSAS 29

Matter for consideration:

Does the IPSASB agree with the hedge accounting proposals in the ED?

7.2.3 ED Development – Transition

Paragraphs 149-176 of ED

Early adoption permitted

Not required to restate comparatives

Removed option for early adoption of own-credit provisions

Matter for consideration:

Does the IPSASB agree with the transition proposals in the ED?

7.2.4 ED Development – Basis for Conclusions (Appendix D)

- Approach for retaining modifications made in IPSAS 29 (BC 4)
- IPSAS 29 BCs are appropriate to retain (BC 6-11)
- Public sector issues/modifications agreed by IPSASB
 - Equity instruments arising from non-exchange transactions (BC 12)
 - Public sector securitizations (BC 13)
 - Applicability of new impairment provisions to public sector entities (BC 14)

Matter for consideration:

Does the IPSASB agree with the BCs developed to date?

7.2.5 Instructions from September Actioned

- BC - replacing “income” with “revenue” (BC 5)
- Concessionary loans vs. credit impaired assets
 - Removal of additional paragraph proposed in September
- Public sector securitizations
 - AG33 and BC 13 noting possibility of financial liability to arise

Matter for consideration:

Does the IPSASB agree with the proposed actions?

CAG Update



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