

## Agenda Item 7: Financial Instruments (Updates to IPSAS 28-30)

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IPSASB Meeting

June 27-30, 2017

Luxembourg, Luxembourg

# Session Outline

Project Management and Project Development

ED Development (7.1.1-7.1.3 & 7.2.1-7.2.6)

ED Approval (7.2.7)

Enhanced At-a-Glance Document (7.2.7 & 7.3.3)

# Summary of Project Progression (Agenda Item 7.1.3)

September 2016:

- Agreed classification & measurement

December 2016:

- Agreed hedging, transition, & BCs

March 2017:

- Approval of authoritative guidance including amendments to other IPSASs

April 2017 TBG Meeting:

- TBG review and agreement of the non-authoritative material

June 2017:

- Final approval of draft ED

## Summary of Decisions (Agenda Item 7.1.2)

### IPSASB Decisions – Draft ED 62

- Scope
- Definitions
- Classification
- Measurement
- Hedging
- Transitional Provisions
- BCs 1-14
- Page-by-page review ED text, Application Guidance & Amendments to Other IPSASs
- Delegation of review responsibilities to TBG for the non-authoritative material

# Process for the development of non-authoritative material (Agenda Item 7.3.1)

## Step one – incorporate IASB guidance

- Evaluate each IFRS 9 example to determine if it should be included

## Step two – incorporate IPSASB guidance

- Include appropriate IPSAS 29 examples and align them with ED 62 principles

## Step three – develop specific examples as directed by the IPSASB

- Develop public sector specific examples as identified by the IPSASB

## Step four – TBG review of non-authoritative material

- TBG met over a three-day period to review non-authoritative examples
- TBG comments were incorporated into non-authoritative material
- TBG reached consensus on all non-authoritative material, including items to raise with the IPSASB at the June meeting

## Concessionary Loans – Clarification (1/2) (Agenda Item 7.2.1)

### TBG member identified sequencing issues

- When classifying a financial asset – ED requires contractual cash flow characteristics be considered
- Measurement at fair value or amortized cost dependent on SPPI assessment
- TBG member flagged that if classification of a concessionary loan determined before separation of concessionary element – unlikely that cash flows represent SPPI

### Staff and TBG agreed to include clarification

- See AG 124 and examples 20 and 21 developed to provide clarification

## Concessionary Loans – Clarification (2/2) (Agenda Item 7.2.1)

Matter for Consideration:

- *Does the IPSASB agree with staff and TBG amendments to clarify application of the classification principles?*

## Equity Instruments with a Non-Exchange Component (Agenda Item 7.2.2)

The IPSASB directed that examples be developed for equity instruments with a non-exchange component

Focus of examples - difference between equity instruments with a non-exchange component & concessionary loans

- Concessionary component must be contemplated at inception of transaction – with supporting documentation to evidence
- Concession cannot be greater than the fair value of the financial instrument
- Examples 28 and IG G.3

Matter for Consideration:

- *Does the IPSASB agree with the non-authoritative material to help with accounting for equity instruments with a non-exchange component?*



## Effective Interest Rate (Agenda Item 7.2.3)

Constituent concerns that sometimes costs outweigh benefits of measurement at amortized cost using effective interest rate (EIR) method

Staff and TBG agreed that measurement outcomes can be similar using straight line and EIR method

- When transaction costs and any premium or discount is insignificant

Staff and TBG noted that EIR provides faithfully representative information

- Regardless of size of transaction costs or issued close to par value

Staff and TBG concluded that the principle should not be modified, but propose BC 15, IE 32 and IG H.1 to help with application

Matter for Consideration:

- *Does the IPSASB agree with the recommendation to include the non-authoritative material in the ED?*

## Other Issues (1/2) (Agenda Item 7.2.4)

Staff and TBG discussed a number of issues and make the following recommendations:

- IG B.1 for gold bullion – pending future decisions related to Monetary Gold
- IG B.9 – included prepaid forward implementation guidance to help with application
- Relocation of Example 23 to IPSAS 23 – as the example is more relevant to revenue
- AG 117 – TBG member noted that an important piece of guidance from IFRS 9 should be included
- ED document clean up

## Other Issues (2/2) (Agenda Item 7.2.4)

### Matters for Consideration:

- *Does the IPSASB agree with:*
  - *Including IG B.1 for gold bullion*
  - *Including IG B.9 for prepaid forwards*
  - *Relocating Example 23 [shown as deleted in the ED] to IPSAS 23*
  - *Including AG 117 for day one gains/losses*
  - *ED clean up*

## IFRS 9 ED – Prepayments (Agenda Item 7.2.5)

IASB ED with proposed IFRS 9 changes issued in April 2017

Staff and TBG agree the proposals are public sector relevant

- However, amendments are not recommended for inclusion in the ED because not yet finalized by the IASB

Matter for Consideration:

- *Does the IPSASB agree with staff and TBG recommendation to exclude the proposed amendment from the ED?*

## SMCs (Agenda Item 7.2.6)

SMC 1 – SMC 3 previously discussed and agreed by IPSASB in March 2017

Staff propose BC 16 – to provide information on IPSASB considerations related to transitional relief

Staff and TBG recommend that SMC 4 be included

Matter for Consideration:

- *Does the IPSASB agree with the SMCs and BC 16?*

## Approval of ED 62 (1/2) (Agenda Item 7.2.7)

IPSASB completed a page-by-page and agreed the following up to March 2017:

- Principles included in the core standard
- Principles in the application guidance
- Amendments to Other IPSASs

IPSASB delegated the review of the non-authoritative material to the TBG, asking for key points to be referred back.

The TBG reviewed the non-authoritative material at the April 2017 meeting and referred back issues for IPSASB consideration

Matter for Consideration:

- *Does the IPSASB vote to approve ED 62?*

## Approval of ED 62 (2/2) (Agenda Item 7.2.7)

Document requires clean up and quality review – will take time given length

Publication expected around August 16, 2017

Longer than normal exposure period recommended

- Significant length of the document – February 15, 2018 comment closing period

Matter for Consideration:

- *Does the IPSASB agree with a February 15, 2018 comment closing period?*

## Enhanced At-a-Glance Document (Agenda Item 7.2.8)

At-a-Glance - staff document summarizing CPs, EDs and Final Pronouncements

December 2016 – CAG highlighted need for better communication with stakeholders

Responding to the CAG the IPSASB agreed that the At-a-Glance should be enhanced

Addition of plain language introduction to the At-a-Glance with basic explanations of what financial instruments are, including common examples

The intent is not to debate the detailed wording of the At-a-Glance document. Tabled for discussion is the new section (pages 3 and 4)

Matter for Consideration:

- *Does the IPSASB agree with the enhancements to the At-a-Glance Document?*





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