

## Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments

I would like to refer "Goodwill" as financial instrument:

Goodwill: Goodwill the heart of a business. A company might not consider without Goodwill.

Goodwill is a financial instruments because :

1. Goodwill can sell or purchase a concern or any assets instantly.
2. Goodwill can introduce cash instantly.
3. Goodwill introduce all Financial instrument.

IPSASB Exposure Draft 69  
*Public Sector Specific Financial Instruments:  
Amendments to IPSAS 41, Financial Instruments*

**Response from the Chartered Institute of  
Public Finance and Accountancy (CIPFA)**

6 December 2019

**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at [www.cipfa.org/](http://www.cipfa.org/)

Any questions arising from this submission should be directed to:

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Our ref: Responses/ 191206 SC0260

**Exposure Draft 69 *Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments***

CIPFA is pleased to present its comments on this exposure draft which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

CIPFA agrees with the proposed amendments to IPSAS 41.

We hope this is a helpful contribution to IPSASB's work in this area.



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Technical Director

International Public Sector Accounting Standards Board

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Per electronic submission

11 December 2019

Dear John

**COMMENTS ON ED 69 - PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS:  
AMENDMENTS TO IPSAS 41**

We welcome the opportunity to provide comment on ED 69. These comments have been prepared by the Secretariat of the ASB after consulting with:

- The National Treasury, which recognises subscriptions in international organisations and aspects of the special drawing rights programme with the IMF; and
- Technical experts at audit firms that specialise in financial instruments, or who are involved in the audit of the South African Reserve Bank (which recognises monetary gold, notes and coins in circulation, and special drawing rights assets and liabilities).

*Support for proposed approach*

We agree with the direction that the IPSASB has decided to take to deal with “public sector specific financial instruments”. Given that these instruments are held by central banks, most of which apply IFRS Standards, we agree with the narrow focus taken by the IPSASB to provide guidance. Because many of the instruments have similar characteristics to financial instruments, we support the amendments to IPSAS 41.

*Support for amendments*

The stakeholders we consulted agreed with the proposed amendments to IPSAS 41. The National Treasury indicated that they found some of the material on the accounting entries

Board Members: Mr V Ngobese (chair), Ms F Abba, Ms L Bodewig, Mr C Braxton, Mr K Hoosain,  
Ms I Lubbe, Mr K Makwetu, Ms P Moalusi, Ms N Themba  
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Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

included in the Consultation Paper issued in July 2016 helpful. They observed that, while they are familiar with the features of the various transactions, they are not familiar with IPSAS. They requested that the information be updated to reflect the decisions in ED 69. It may be helpful if this information is published as a staff paper or FAQ on the IPSASB's website.

*Visibility of guidance*

ED 69 proposes amendments to the non-authoritative material published with IPSAS 41. This material is voluminous. Once the amendments are incorporated into IPSAS 41, it may be difficult for users of IPSAS to know where to find guidance on monetary gold, notes and coins in circulation, subscriptions to international organisations and special drawing rights.

The IPSASB should give consideration to how it ensures that there is ongoing visibility of the guidance provided through options such as a permanent project page, a staff paper, FAQs etc.

Please feel free to contact me should you have any queries on our comments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Poggiolini', written in a cursive style.

Jeanine Poggiolini

Technical Director

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19 December 2019

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Chairman  
International Public Sector Accounting Standards Board  
529 Fifth Avenue  
New York, NY 10017  
USA

Via online submission: [www.ipsasb.org](http://www.ipsasb.org)

Dear Ian

**Exposure Draft 69: Financial Instruments**

CPA Australia represents the diverse interests of more than 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the proposed guidance developed by the International Public Sector Accounting Standards Board (IPSASB) to augment existing guidance in IPSAS 41 *Financial Instruments* (IPSAS 41) when accounting for Public Sector Specific Financial Instruments. In finalising the proposed guidance, we believe that IPSAS 41 would benefit from elaborating on the description of the terms “gold bullion” and “monetary gold”. We have provided our views on these matters in our response to Specific Matter for Comment 1 in the attachment to this letter.

If you require further information on the views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Your sincerely

**Dr. Gary Pflugrath**  
Executive General Manager, Policy and Advocacy



## Attachment

### Specific Matter for Comment 1:

**Do you agree with the proposed amendments to IPSAS 41, *Financial Instruments*?**

**If not, what changes would you make to the proposals?**

As stated in the cover letter, we agree with the additions proposed by the IPSASB to existing guidance in IPSAS 41 *Financial Instruments*.

### Gold Bullion

Paragraph BC18 of IPSAS 41 includes a statement that *“gold bullion has a wider meaning than monetary gold”*. Whilst we agree with this statement, there is no further description or definition in IPSAS 41 around the term “monetary gold”. CPA Australia is of the view that it would be beneficial to include a clear definition or description, in addition to the attributes describing monetary gold as proposed. For example, The Consultation Paper *Public Sector Specific Financial Instruments* issued by the IPSASB in July 2016 included a proposed definition that *“Monetary Gold is tangible gold held by monetary authorities as reserve assets”*. This proposed definition, along with the accompanying proposed definition of tangible gold included in the Consultation Paper could provide a better understanding of what is meant by monetary gold. Similarly, in the Implementation Guidance under *B1 Definition of a Financial Instrument: Gold Bullion*, gold bullion is defined as a commodity. The reference to gold bullion as a commodity provides the rationale to clarify the definition of gold bullion by emphasising the features of commodities and how they relate to the definition of gold bullion.

### Monetary Gold

We agree with the proposed additions in paragraphs BC18A, BC18B, BC18C and BC18D.

### Illustrative Examples

We agree with proposed additions.

### Implementation Guidance

We generally agree with the additions suggested by the IPSASB emphasising that monetary gold, similar to gold bullion, is not a financial instrument but *“has many of the characteristics of a financial asset”* (B.1.1). We note that the proposed paragraph BC18A lists several characteristics monetary gold shares with financial assets. We believe including this list in the Implementation Guidance under B.1.1 would support the statement that monetary gold has many of the characteristics of a financial asset.

In addition to the recommendation that it would be generally appropriate to account for monetary gold in accordance with IPSAS 41, Paragraph B.1.1 also states that *“it may however be appropriate for an entity to consider other IPSAS depending on the facts and circumstances related to its holding of monetary gold”*. We suggest the IPSASB considers the provision of examples/possible scenarios to expand on what is meant by *“facts and circumstances”* in this statement.

We agree with the proposed additions in paragraphs B.1.2.1, B.1.2.2 and B.1.2.3.

**ACT**  
GovernmentChief Minister, Treasury and  
Economic Development

Mr John Stanford  
The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017  
United States of America

Dear Mr Stanford

**Exposure Draft 69 *Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments***

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on IPSASB Exposure Draft (ED) 69 *Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC agrees with the approach outlined in this ED.

The attachment to this letter sets out HoTARAC's response to the specific matters for comment. If you have any queries regarding our comments, please contact Peter Gibson from the Commonwealth Department of Finance on +61 2 6215 3551 or by email to [peter.gibson@finance.gov.au](mailto:peter.gibson@finance.gov.au).

Yours sincerely

David Nicol

Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

17 December 2019

Specific Matter for Comment 1: Do you agree with the proposed amendments to IPSAS 41, Financial Instruments? If not, what changes would you make to the proposals?

HoTARAC agrees.



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December 18, 2019

The Technical Director  
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International Federation of Accountants  
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CANADA

Dear Sir

The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to Exposure Draft 69 “*Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments*” issued August 2019.

1. The ICGFM welcomes the proposed clarifications of the financial instruments as addressed in this ED. However, our view is that the definitions and treatments adopted should as far as feasible be consistent with the IMF Government Finance Statistics (GFS) Manual.
2. We appreciate the opportunity to comment on this Exposure Draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at [Michael.parry@michaelparry.com](mailto:Michael.parry@michaelparry.com) or on +44 7525 763381.

Yours faithfully,

**Michael Parry**

Chair, ICGFM Accounting Standards Committee

Cc: Lucie Philips, President, ICGFM

*ICGFM Response – ED69 Public Sector Specific Financial Instruments:  
Amendments to IPSAS 41, Financial Instruments*

**Members**

Michael Parry, Chair

Osman Ali

Jesse Hughes

Tetiana Iefymenko

Hassan Ouda

Laura Robinson

*ICGFM Response – ED69 Public Sector Specific Financial Instruments:  
Amendments to IPSAS 41, Financial Instruments*

<b>Specific Matters for Comment</b>	<b>Comments</b>
<b>B1.1 Monetary gold</b>	<p>This definition appears to merely confirm that treatment depends on the circumstances in each country. However, GFS is clear that monetary gold is a financial asset (GFS 2014 para 7.125). We would advocate consistency with the GFS treatment.</p> <p>One of the committee members raised an issue concerning monetary gold stored by a monetary authority of another jurisdiction (e.g. Germany keeps a significant part of gold reserve in the Federal Reserve Bank of New York , the Netherlands in the USA, Britain and Canada , Belgium - in the UK, Canada and in the Bank for International Settlements , Austria – in Switzerland and the United Kingdom ). Also, in the “monetary gold” definition, the phrase “subject to the effective control of the monetary authorities” needs a clearer definition of effective control, since it is difficult to imagine in practice how the monetary authority of one jurisdiction can control similar authority in the other jurisdiction. For this reason, we propose to add to the monetary gold explanation the following comment: “a monetary authority’s statement should disclose the volume of gold located on deposit in other organizations and confirmation that the monetary authority receives a certificate from the independent auditor of such organizations”</p>
<b>Gold bullion</b>	<p>The proposed treatment is not consistent with GFS which distinguishes gold bullion held as monetary gold with gold bullion held for other purposes (GFS 2014 para 7.126). Monetary gold is discussed above.</p> <p>Gold bullion not held a reserve asset is defined in GFS as a financial asset (GFS 2014 para 7.129). We can see no reason to differ from this treatment.</p>
<b>Currency</b>	<p>Since currency is an asset of the holder, the GFS principle of symmetry means it must be a liability of the issuer (IMF GFS para 7.135). Whilst the requirements of symmetry do not apply to IPSAS, the principle remains the same – currency is a financial liability of the issuer.</p> <p>GFS distinguishes between domestic and foreign holdings. Since the latter are only repayable with currency in some other form, they are not in any meaningful sense a liability. But currency held by foreign entities is a liability since it may be converted to some other form, e.g. used to buy government bonds. This treatment is possible under the discretion in the ED, but it is left to the judgement of the reporting entity. We would prefer an approach consistent with GFS.</p>
<b>SDRs</b>	We agree with the proposals in the ED



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Ref: PSASB 1/12 Vol .II / (33)

Date: 17<sup>th</sup> December 2019

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**EXPOSURE DRAFT 69: PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS:  
AMENDMENTS TO IPSAS 41, FINANCIAL INSTRUMENTS**

The Public Sector Accounting Standards Board, Kenya is pleased to submit its comments on **ED 69: Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments**. The clarity provided by the Exposure Draft on additional guidance with respect to public sector specific financial instruments will improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about these instruments.

The Public Sector Accounting Standards Board (PSASB), Kenya was established by the Public Finance Management Act (PFM) No.18 of 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28<sup>th</sup> February, 2014 and has been in operation since.

The Board is mandated to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and Public entities in Kenya and to prescribe internal audit procedures which comply with the Public Finance Management Act, 2012.

PSASB Kenya response is documented in the attachment for your consideration.

With kind regards,

**CPA FREDRICK RIAGA**  
**CHIEF EXECUTIVE OFFICER, PUBLIC SECTOR ACCOUNTING STANDARDS BOARD**

**PSASB's Response to ED 69: Public Sector Specific Financial Instruments: Amendments to IPSAS 41**

**Specific Matter for Comment**

Do you agree with the proposed amendments to IPSAS 41, Financial Instruments? If not, what changes would you make to the proposal?

**PSASB's response**

*PSASB agrees with the proposed amendments to IPSAS 41, Financial Instruments. PSASB has considered the specific public sector financial instruments and agrees that although monetary gold shares many characteristics with cash, it's not a financial instruments because there is no contractual right to receive cash or another financial asset. We are also in agreement that paragraph 9-15 of IPSAS 3 is sufficient to provide guidance while an entity is assessing all facts specific to holding monetary gold. PSASB also agrees with the guidance provided that currency in circulation, IMF Quota and Special Drawing Rights are financial instruments. The amendments to IPSAS 41 will provide guidance and clarity to constituents on classification and measurement of public sector financial instruments with an aim of ensuring that information produced meets all the qualitative characteristics of general purpose financial statements.*



## PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS: AMENDMENTS TO IPSAS 41, FINANCIAL INSTRUMENTS

Issued 19 December 2019

ICAEW welcomes the opportunity to comment on the consultations on *Public Sector Specific Financial Instruments: Amendments to IPSAS 41* published by the International Public Sector Accounting Standards Board (IPSASB) in August 2019, a copy of which is available from this [link](#).

ICAEW supports IPSASB's initiative to include guidance for instruments that are specific to the public sector. These include monetary gold, Special Drawing Rights, currency in circulation and International Monetary Fund (IMF) quota subscriptions. We agree that guidance should be added to the existing financial instruments standard – IPSAS 41.

This response of 19 December 2019 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee and Public Sector Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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## KEY POINTS

1. We support IPSASB's decision to expand the current financial instruments standard (IPSAS 41) to include public sector specific financial instruments. This project fits in well with IPSASB's broader strategy of focusing on public sector specific accounting issues and should help to increase the attractiveness of adopting IPSASs as coverage increases.
2. For reasons highlighted below in paragraph five, we recommend that the instruments included in the public sector specific financial instruments project be included in the Application Guidance (which is integral to the Standard) so that the guidance is authoritative.
3. We would like to point out that this project has taken quite a while to develop guidance. The project started in June 2015 and the final pronouncement is not due until September 2020. In future we hope that it will be easier for the IPSASB to progress projects on a more timely basis in order to meet stakeholder demands.

## ANSWERS TO QUESTIONS

### ***Specific Matter for Comment 1:***

#### ***Do you agree with the proposed amendments to IPSAS 41, Financial Instruments?***

#### ***If not, what changes would you make to the proposals?***

4. Whilst we support the inclusion of guidance on these types of public sector specific instruments we do not support guidance being placed solely in the non-authoritative section of the standard.
5. We recommend that these types of public sector specific instruments should be in the Application Guidance, given the importance of these types of instruments to the public sector and that the two public sector specific instruments already addressed—concessionary loans and financial guarantee contracts issued through non-exchange transactions—are located in the Application Guidance (which is integral to the Standard) in IPSAS 41. Moreover, the proposed accounting requirements provide clear, understandable and enforceable guidance that is consistent with the principles in the core standard. Limiting the proposed accounting requirements to non-authoritative guidance may result in the guidance being omitted entirely in jurisdictions that only translate the authoritative elements into their local language and, for those using IPSAS as a reference only, may also only consider the authoritative sections.
6. We also consider that it is inappropriate to omit specific reference to IMF quota subscriptions from the Application Guidance. The only guidance on this type of transaction is currently proposed in Illustrative Example 32, which could easily be missed. Particularly as the proposed change to insert "...or similar international organization" does not even include reference to "IMF quota subscriptions", and it is not obvious which similar organisations exist that would issue quota subscriptions. It is not until reading paragraph BC3E that the reader understands why Illustrative Example 32 is being proposed for change. Proper guidance on IMF quota subscriptions should be included in the Application Guidance similarly to the other public sector specific instruments would allow for better signposting to the relevant example.
7. The 2016 consultation proposed definitions for the various types of financial instruments which we thought were helpful. Despite the headings in the implementation guidance referring to definitions, we note that the instruments themselves are not defined. Account preparers may find it useful if a reference to the relevant statistical manuals, such as Balance of Payments and International Investment Position Manual – Sixth Edition (BPM6), as they contain the definitions.

John Stanford  
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CANADA

Lausanne, December 23, 2019

## Swiss Comment to

### Exposure Draft 69 Public Sector Specific Financial Instruments, Amendments to IPSAS 41

Dear John,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to Exposure Draft 69 Public Sector Specific Financial Instruments, Amendments to IPSAS 41. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments for the Exposure Draft in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP



Prof Nils Soguel, President



Evelyn Munier, Secretary

Swiss Comment to Exposure Draft 69 Public Sector Specific Financial Instruments, Amendments to  
IPSAS 41

## Swiss Comment to

### ED 69 Public Sector Specific Financial Instruments, Amendments to IPSAS 41

Table of Content	Page
1. Introduction.....	3
2. Preliminary Remarks.....	3
3. Specific Matter for Comment 1 .....	3

## 1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPCP has discussed the ED 69 Public Sector Specific Financial Instruments, Amendments to IPSAS 41 and comments as follows.

## 2. Preliminary Remarks

The SRS-CSPCP emphasizes that the issues raised in the Exposure Draft discuss situations, which do not affect the Swiss Federal Finance Administration (SFFA) as user of the financial statement. Furthermore, the other public sector entities in Switzerland, in particular the cantons and municipalities, are also not affected. The notes in issue, the gold reserves and also the reserve positions and the special drawing rights with the International Monetary Fund (IMF) are reflected in the balance sheet of the Swiss National Bank (SNB). The SNB in turn does not draw up its financial statements in accordance with the IPSAS Standards, but with the provisions of the Swiss National Bank Act (NBA) and the Swiss Code of Obligations (CO) and the accounting principles set out in the Notes to the Financial Statements, which in principle are based on the Swiss GAAP FER standards.

Already in 2016, the SNB was invited to comment on the Consultation Paper. The SNB refrained from the possibility of involvement in the consultation process, because currently the IPSAS are not relevant for their financial statements and it is not planned to apply IPSAS in future.

The SFFA is indirectly affected by the issues raised in respect of the coinage in circulation. Therefore, only the newly created **Interpretation Guidance B.1.2.1 Definition of a Financial Instrument: Currency Issued as Legal Tender** will be discussed below.

## 3. Specific Matter for Comment 1

*Do you agree with the proposed amendments to IPSAS 41, Financial Instruments?*

*If not, what changes would you make to the proposals?*

The SRS-CSPCP is in agreement with the proposed amendments, with the exception of the desired changes in the **Interpretation Guidance B.1.2.1 Definition of a Financial Instrument: Currency Issued as Legal Tender**. The SRS-CSPCP is of the opinion that from case to case is to be reviewed whether or not a contractual obligation is effectively given and therefore there is a financial obligation. In many cases the obligation may probably have arisen on the basis of a sovereign activity and therefore lie outside the scope of influence of the user. In these cases, in the view of the SRS-CSPCP, this is a provision rather than a financial obligation. Accordingly, the SRS-CSPCP proposes that the text of B.1.2.1 be weakened or amended as follows (addenda are highlighted in colour).

### **Does issuing currency as legal tender create a financial liability for the issuer?**

*It depends. Currency derives its value, in part, through the statutory arrangement established between the issuer and the holder of the currency whereby currency is accepted as a medium of exchange and is recognized legally as a valid form of payment. In some jurisdictions, this statutory arrangement further obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.*

*When laws and regulations or similar requirements enforceable by law, such as a banking act, set out a requirement and a responsibility of an entity to exchange outstanding currency, a liability needs to be recognized. An entity considers first whether a "contract" and therefore a financial liability exists for the purposes of this Standard by considering the substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash. Contracts are evidenced by the following:*

- Willing parties entering into an arrangement;*
- The terms of the contract create rights and obligations for the parties to the contract; and*
- The remedy for non-performance is enforceable by law.*

*A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Prior to currency being issued, there is no transaction between willing parties. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, Inventories, in accounting for any unissued currency. In case the liability does not meet the definition of a financial instrument as it is not contractual, an entity applies IPSAS 19 to determine whether a provision needs to be recognized.*

Lausanne, December 17, 2019



**The Japanese Institute of  
Certified Public Accountants**

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December 27, 2019

Mr. John Stanford  
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**Comments on Exposure Draft 69 “Public Sector Specific Financial  
Instruments: Amendments to IPSAS 41, Financial Instruments”**

Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (hereafter “JICPA”) highly respects the International Public Sector Accounting Standards Board (hereafter “IPSASB”) for its continuous effort to serve the public interest. We are also pleased to comment on the Exposure Draft 69 “Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments” (hereafter “ED”). Our comments to ED are as follows.

**Specific Matter for Comment 1:**

Do you agree with the proposed amendments to IPSAS 41, Financial Instruments? If not, what changes would you make to the proposals?

We do not agree with the proposed amendments to IPSAS 41, *Financial Instruments*. We believe that the amendments discussed below are required.

**1. Additions to the definition**

The definition of each item added as a public sector specific financial instrument should be stated in the Basis for Conclusions section. In particular, the following descriptions should be added to the definitions of “monetary gold” and “currency in circulation.”

**(1) Monetary gold**

In the context of BC18A, monetary gold should be described as “gold held by monetary authorities as reserve assets that are available to them in carrying out their mandates.”

In addition, Paragraph 4.3 of the Consultation Paper “*Public Sector Specific Financial Instruments*” (hereafter “CP”) defined monetary gold as “physical gold held by monetary

authorities as reserve assets.” The reasons underlying the decision to eliminate the term “physical gold” for monetary gold should be explained.

## (2) Currency in circulation (currency issued as legal tender)

Application Guidance B1.2.1 describes whether currency issued as legal tender results a financial liability. We think the IPSASB should explain the background and process for this guidance in the basis of conclusion, including definitions and explanations of currency in circulation and the discussions at the meetings of the IPSASB.

In the definition given in Paragraph 1.6 of the CP, currency in circulation is described as “physical notes and coins with fixed and determinable values that are legal tender issued by, or on behalf of, the monetary authority; that is, legal tender either of an individual economy or, in a currency union to which an economy belongs”. If this definition remains unchanged, this description should be included in the BC.

## 2. Hierarchy for the application of IPSAS literature to monetary gold

The description of the application of IPSAS 41 under the hierarchy set out in B1.1 should be amended as follows:

Monetary gold consists of physical gold, which is a physical instrument. It would be appropriate to apply IPSAS 12 Inventories consistent with other types of physical gold. However, given that monetary gold has many of the characteristics of a financial asset, it seems generally more appropriate to apply the principles set out in IPSAS 41 under the hierarchy set out in paragraphs 9–15 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

In the hierarchy for the application currently described, it would be generally acceptable to first apply IPSAS 41 to monetary gold, and then to apply other IPSAS.

However, if the principle that monetary gold, like gold bullion, is not a financial instrument (B1.1), we consider monetary gold is not an asset excluded from inventories under Paragraph 2 (b) of IPSAS 12, *Inventories*. In this case, we believe that IPSAS 12 should be applied first.

Next, it should be described that the application of IPSAS 41 would be appropriate if monetary gold can be classified as a financial instrument when certain criteria are met. In deciding to apply IPSAS 41, both criteria (i) and (ii) below should be met

- (i) Unlike other gold bullion, monetary gold should not be a gold held for sale or distribution in the ordinary course of operations under the definition of Paragraph 9 (c) of IPSAS 12; and
- (ii) Monetary gold should have characteristics substantially similar to those other financial instruments

However, ED 69 provides no clear definition of monetary gold, which makes it difficult to separate monetary gold from gold bullion. While the definition of monetary gold (together with

reserve assets, if possible) should be clarified, the description that one of characteristics of monetary gold as a reserve asset is that “it is not held for sale or distribution in the ordinary course of operations” should be included.

### 3. Inclusion of application guidance for currency

#### (1) Proposed revision

We propose to amend the requirements of B1.2.1 as follows:

##### B.1.2.1 Definition of a Financial Instrument: Currency Issued as Legal Tender

Does issuing currency as legal tender create a financial liability for the issuer?

It depends. Currency derives its value, in part, through the statutory arrangement established between the issuer and the holder of the currency whereby currency is accepted as a medium of exchange and is recognized legally as a valid form of payment. In some jurisdictions, this statutory arrangement further obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.

When laws and regulations or similar requirements enforceable by law, such as a banking act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a “contract” exists for the purposes of this Standard. A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Prior to currency being issued, there is no transaction between willing parties.

For the purposes of this Standard, an entity considers the substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash.

Contracts are evidenced by the following:

- Willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract; and
- The remedy for non-performance is enforceable by law.

Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, Inventories, in accounting for any unissued currency.

#### (2) Reordering of paragraphs 2 and 3 in B.1.2.1

In binding arrangements, laws have stronger binding power than contracts. Therefore, the explanations of requirements enforced by laws (paragraph 3 of B1.2.1) should be placed before paragraph 2 concerning substance rather than the legal form.

#### (3) Terms relating to “binding arrangements” and “contract

We propose that the descriptions related to B1.2.1 should be amended as follows:

Before amendment (ED)	Our proposed amendments
<u>For the purposes of this Standard, an entity considers the substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash.</u>	<u>When no requirements enforced by laws and regulations exist, substance should be considered in determining whether contractual obligations exist.</u>
When laws and regulations or similar requirements enforceable by law, such as a banking act, set out the requirements and responsibilities of an entity to exchange outstanding currency, <u>a “contract” exists for the purposes of this Standard.</u>	When laws and regulations or similar requirements enforceable by law, such as a banking act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a <u>“binding arrangement” exists for the purpose of this Standard.</u> .
<u>A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement.</u>	A financial liability is created when an entity issues currency to the counterparty <u>based on the contract.</u>
Prior to currency being issued, there is no transaction <u>between willing parties.</u>	Prior to currency being issued, there is no transaction <u>based on the contract.</u>

#### (4) Explanation of obligations incurred by monetary authorities

We request the IPSASB to additionally consider the obligations incurred by monetary authorities to stabilize and maintain the currency system, in addition to the obligations to exchange currencies.

In specifying the reason for recognizing liabilities, the ED included only the currency exchange obligations the monetary authorities have incurred. However, in practice, monetary authorities have incurred various obligations which central banks should undertake in order to maintain currency values, in addition to obligations to exchange currency.

If a liability is measured only based on the exchange obligations, the face value of a currency newly issued from a currency exchange does not represent the initial measure. Liabilities related to exchange obligations are equivalent to the fees required for exchange. In addition, it may be appropriate to estimate the expected value of exchange and recognize provisions.

The Bank of Japan, a central bank in Japan, recognizes liabilities with issued currencies. It does

so because it must secure confidence in issued bank notes by appropriately performing monetary policies. It does not recognize liabilities merely on the basis that it undertakes exchange obligations.

Yours sincerely,

Hiroshi Shiina

Executive Board Member - Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants



**Public Sector Accounting Board**  
277 Wellington Street West,  
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[www.frascanada.ca](http://www.frascanada.ca)

December 30, 2019

International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, ON M5V 3H2 Canada

**Re: PSAB Staff Comments on Exposure Draft 69 (ED 69), “Public Sector Specific Financial Instruments: Amendments to IPSAS 41, *Financial Instruments*”**

Thank you for the opportunity to comment on the proposed amendments to IPSAS 41.

We agree with the additional guidance provided on public sector specific instruments.

Please note that this letter and the comments within represent the views of PSAB staff and not those of the Public Sector Accounting Board.

Sincerely,

Umar Saeed  
Principal,  
Public Sector Accounting Board.  
[usaheed@psabcanada.ca](mailto:usaheed@psabcanada.ca)

**Specific Matter for Comment 1**

Do you agree with the proposed amendments to IPSAS 41, *Financial Instruments*?

If not, what changes would you make to the proposals?

PSAB staff agrees with the proposed amendments to IPSAS 41, *Financial Instruments*.

**(NBAA)**


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**THE NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS**

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**TANZANIA**

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 41104 TAMBUKARELI,  
 DODOMA, TANZANIA

Date: 23<sup>rd</sup> December, 2019

Chief Executive Officer,  
 International Federation of Accountants,  
 International Public Sector Accounting Standard Board,  
 529 5th Avenue  
 New York, New York 10017.

Dear Sir/Madam

**RE: COMMENTS ON EXPOSURE DRAFT 69 – PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS (AMENDMENT TO IPSAS 41)**

Refer to the heading above.

NBAA as the PAO responsible for the professional training, development and regulation of the accountancy profession in Tanzania and as the member board of the International Federation of Accountants welcomes the opportunity to provide you with our comments on the Exposure Draft no. 69 – Public Sector Specific Financial Instruments (amendment to IPSAS 41).

In principle, we are supportive with all of the proposed amendments made with respect to IPSAS 41, however, with the following issue entailed below additional help is expected to be brought about by the Board:

**Specific Matter for Comment 1:**

Do you agree with the proposed amendments to IPSAS 41, *Financial Instruments*?  
 If not, what changes would you make to the proposals?

**Yes:** We do agree with the proposed amendments to IPSAS 41, however, extra guidance should be given to specific related standards when paragraph 9 – 15 of IPSAS 3 – *Accounting policies, changes in accounting estimates and errors* is to be used for gold and monetary gold.

The guidance should clarify a clear cut principle to be applied to reflect gold and monetary gold in the financial statements as some of them are highly and readily convertible into cash whereby others are not.

If you require any clarification on our comments, please contact the undersigned.

Thank you in advance for your cooperation.

Yours sincerely,



CPA Angyelile V. Tende

**For: EXECUTIVE DIRECTOR**



Member of International Federation of Accountants (IFAC) & Pan African Federation of Accountants (PAFA)



*All communication to be addressed to the Executive Director NBAA*

NBAA Dar es Salaam Branch: Mhasibu House, Bibi Titi Mohamed Street,  
P. O. Box 5128, Dar Es Salaam, Tanzania Tel: +255 22 2211890-9



Responses to IPSASB Exposure Draft 69: Public Sector Specific Financial Instruments, Amendments to IPSAS 41, Financial Instruments  
(December, 2019; Comments due: December 31, 2019)

## EXPOSURE DRAFT 69

### PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS, AMENDMENTS TO IPSAS 41, FINANCIAL INSTRUMENTS

*The Technical Director*

*International Public Sector Accounting Standards Board (IPSASB)*

*International Federation of Accountants*

*277 Wellington Street West, 6<sup>th</sup> floor*

*Toronto, Ontario M5V 3H2 CANADA*

Brasília, Brazil

December 30, 2019

Dear Mr. John Stanford,

The Conselho Federal de Contabilidade (CFC) of Brazil welcomes the opportunity to collaborate with the Exposure Draft 69: Public Sector Specific Financial Instruments, Amendments to IPSAS 41, Financial Instruments. CFC, along with its regional arms - Regional Accounting Councils or Conselhos Regionais da Contabilidade (CRCs), is the Professional Accountancy Organization that carries out regulatory activities including the issuance standards of ethics, education for accountants, auditing and accounting for the private and public sectors and the overseeing of the accountancy profession throughout the country.

Our points of view and comments are included in the Appendix to this letter and was prepared by the Advisory Group for Public Sector Accounting Standards (GA/NBC TSP) of the CFC.

If you have any questions or require clarification of any matters in this submission, please contact: [tecnica@cfc.org.br](mailto:tecnica@cfc.org.br).

Regards,

A handwritten signature in blue ink, appearing to read 'Idésio S. Coelho', is positioned above the printed name.

Idésio S. Coelho  
*Technical Vice-President*  
Conselho Federal de Contabilidade



Responses to IPSASB Exposure Draft 69: Public Sector Specific Financial Instruments, Amendments to IPSAS 41, Financial Instruments  
(December, 2019; Comments due: December 31, 2019)

## APPENDIX

### 1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, the Federal District and more than 5,500 municipalities. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements.

In this document, we present the contributions for the exposure draft based on a practical approach applicable to our jurisdiction.

We agreed with the proposed amendments to IPSAS 41, *Financial Instruments*. In addition, we agree that it is necessary to develop another Public Sector Specific Financial Instruments project to address the remaining issues, since the amendments do not approach the particularities of public sector specific financial instruments, such as currency in circulation without obligation.

In the next section, we present our answer and comment on the specific matter for comment of the exposure draft.



Responses to IPSASB Exposure Draft 69: Public Sector Specific Financial Instruments, Amendments to IPSAS 41, Financial Instruments  
(December, 2019; Comments due: December 31, 2019)

## 2. Response to the Specific Matter for Comment

### Specific Matter for Comment 1

Do you agree with the proposed amendments to IPSAS 41, *Financial Instruments*? If not, what changes would you make to the proposals?

**GA/CFC agree with the proposed amendments to IPSAS 41.** The amendments consider the features of specific public sector financial instruments that are similar to financial instruments not specific to public sector.

However, we believe that the issue related to accounting treatment for the specific public sector financial instruments will be partially solved, since the amendments do not address the particularities of public sector specific financial instruments, such as currency in circulation without obligation. Consequently, we agree that it is necessary to develop another Public Sector Specific Financial Instruments project to address the remaining issues.



**30 December 2019**

John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
277 Wellington Street West  
Toronto Ontario M5V 3H2  
Canada

Dear John,

**IPSASB Exposure Draft 69 – Public Sector Specific Financial Instrument: Amendments to IPSAS 41, Financial Instruments**

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the proposed amendments to IPSAS 41 – Financial Instruments.

Please find below the responses which we have provided to the questions raised in the Exposure Draft.

Kindly contact us using the details below should you require any additional information or clarification; [cliff.nyandoro@icpak.com](mailto:cliff.nyandoro@icpak.com) Tel: +254 721 578 138.

CPA Cliff Nyandoro

Head of Technical Services  
(Accounting and Auditing Standards)  
For: Professional Standards Committee

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Web: [www.icpak.com](http://www.icpak.com)  
Drop in box no. 164  
Revlon Professional Plaza

**Specific Matter for Comment 1:**

*Do you agree with the proposed amendments to IPSAS 41, Financial Instruments?*

*If not, what changes would you make to the proposals?*

***Response:*** ICPAK agrees with the proposed amendments to IPSAS 41.

No changes proposed for now.



# PAFA

PAN AFRICAN FEDERATION  
OF ACCOUNTANTS

**BUILDING A BRIDGE TO A BRIGHTER AFRICA**

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Registration Number: 094-631-NPO

## **The International Public Sector Accounting Standards Board (IPSASB)**

*Website submission*

### **PREFACE**

The Pan-African Federation of Accountants (PAFA), is the continental body representing Africa's professional accountants. Our objective is to accelerate the development of the profession and strengthen the voice of the accountancy profession within Africa and worldwide.

In its unique regional capacity to facilitate PAOs and present a unified position of the profession, PAFA presents below its comments on Exposure Draft (ED) 69 issued by the International Public Sector Accounting Standards Board (IPSASB) titled *Public Sector Specific Financial Instruments: Amendments to IPSAS41, Financial Instruments*. The response provided relate to the specific matter for comment as included in the ED.

### **Objective of the Exposure Draft**

The objective of this Exposure Draft (ED) is to propose improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about monetary gold, currency in circulation, IMF quota subscriptions and Special Drawing Rights. Following the publication of IPSAS 41, *Financial Instruments*, the IPSASB decided to provide guidance for Public Sector Specific Financial Instruments through amendments to IPSAS 41 proposed in this ED.

### **Specific Matter for Comment 1:**

Do you agree with the proposed amendments to IPSAS 41, Financial Instruments? If not, what changes would you make to the proposals?

### **PAFA's Response:**

**We are in agreement with the proposed amendments to IPSAS 41**



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
(Established by Act of Parliament No. 15 of 1965)

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**Registrar/Chief Executive**

JOHN I. EVBODAGHE, MBA, FCA

**December 30, 2019**

ICAN/ED/R&T/DEC/2019

The Technical Director  
IPSASB  
277 Wellington Street West  
Toronto, ON M5V 3H2  
Canada

Dear Sir,

**RE: PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS: AMENDMENTS TO IPSAS 41,  
FINANCIAL INSTRUMENTS**

The Institute of Chartered Accountants of Nigeria (ICAN) has considered the above Exposure Draft and is pleased to submit its comments as follows:

**Do you agree with the proposed amendments to IPSAS 41, Financial Instruments? If not, what changes would you make to the proposals?**

*We agree with the proposed amendments to IPSAS 41, Financial Instruments.*

*On a general note, we also request that the Board reach out to emerging economies on the implementation of IPSAS and also provide future documents tailored for these regions.*

We thank you for giving our Institute the opportunity to contribute to the work of IPSASB.

Yours faithfully,

For: Registrar/Chief Executive

**Ben Ukaegbu, PhD, ACA**  
Deputy Registrar, Technical & Education



**MALAYSIAN INSTITUTE  
OF ACCOUNTANTS**

15 January 2020

Mr John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2  
CANADA

Dear John,

**EXPOSURE DRAFT 69 PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS:  
AMENDMENTS TO IPSAS 41, *FINANCIAL INSTRUMENTS***

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft 69 Public Sector Specific Financial Instruments: Amendments to IPSAS 41, *Financial Instruments* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli, Deputy Executive Director of Professional Practices and Technical at +603 2722 9277 or by email at [rasmimi@mia.org.my](mailto:rasmimi@mia.org.my).

Yours sincerely,

**MALAYSIAN INSTITUTE OF ACCOUNTANTS**

A handwritten signature in black ink, appearing to read 'Nurmazilah', is written over a horizontal line.

**DR NURMAZILAH DATO' MAHZAN**  
Chief Executive Officer

## Appendix 1

## Specific Matter for Comment

## Specific Matter for Comment 1

Do you agree with the proposed amendments to IPSAS 41, *Financial Instruments*?  
If not, what changes would you make to the proposals?

### Definition of monetary authorities

We generally agree with the proposed amendments to IPSAS 41, *Financial Instruments*. However, we noted that there is no definition of monetary authorities in the standard. A definition of monetary authorities would enable an entity to determine whether it is a monetary authority or not and accordingly, apply relevant guidance on the accounting of gold bullion and monetary gold.

### Application of IPSAS 12, *Inventories* on unissued currency

We also propose the last sentence of paragraph B.1.2.1 to be removed as follows:

#### B.1.2.1 Definition of a Financial Instrument: Currency as Legal Tender

...

When laws and regulations or similar requirements enforceable by law, such as a banking act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a "contract" exists for the purposes of this Standard. A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Prior to currency being issued, there is no transaction between willing parties. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, *Inventories*, in accounting for any unissued currency.

We agree that unissued currency does not meet the definition of a financial instrument. We also believe that unissued currency should not be accounted for by applying IPSAS 12 as paragraph 2(d) of IPSAS 12 states that "an entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all inventories except:

...d) Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients".

In this case, unissued currency is a work-in-progress of the monetary authority in providing a service of currency circulation.

In addition, as noted in the IPSASB Consultation Paper, *Public Sector Financial Instruments* that was issued in 2016, the Government Finance Statistics (GFS) Manual provides guidance that the cost of producing the physical notes and coins is recorded as government expenditure<sup>1</sup>.

<sup>1</sup> Paragraph 3.13 of IPSASB Consultation Paper, *Public Sector Financial Instruments*

## Task force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII

16th January, 2020

The IPSAS Board has requested comments and answers to specific questions regarding its Proposed Amendments to IPSAS 41 covering Public Sector Specific Financial Instruments. The comments and responses prepared by the Task Force IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are presented below.

The IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 17 researchers from these networks. The views expressed in this document are widely shared by the members of the Task Force, but neither do they represent the views of the whole research community represented by the networks, nor of the Institutions/Universities with which they are affiliated.

### **Comments and suggestions considering the IPSAS Board document for ED 69 'Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments'**

We welcome the opportunity to comment on the proposed amendments to IPSAS 41 contained in ED 69. We see the development of standards and guidance on matters that are specific to the public sector as being a particularly important part of the continuing programme of work of the IPSAS Board.

#### **Core assumptions**

We are of the opinion that Public Financial Management (PFM), in its broadest sense, is the system by which public financial resources are planned, managed and controlled. Furthermore, the PFM system is the foundation on which the *accountability* of public sector entities, both external and internal, is built to enable and influence the efficient and effective delivery of public service outcomes and to discharge accountability *towards citizens*. In our view, PFM is paramount for accountability and should support the stewardship function, as well as decision-making, which are both subordinated. We recognise the pivotal role of the Board in developing high quality international public sector accounting standards to support financial reporting and to enhance non-financial disclosure by public sector entities to increase citizens' trust.

We are of the opinion that, in general, public sector entities require public sector specific principles and standards that properly address and accommodate public sector specificities. As such, when public sector transactions resemble those taking place in the private sector, principles and standards may be kept as aligned as possible. However, for public-sector-specific transactions, we are in favour of standards that are not adapted artificially from private sector accounting and we think there is a need to seek options that best fit the public sector. This core thesis underpins our proposals and recommendations herein.

**With respect to ED 69**, we understand that the IPSAS Board is sorting out several critical issues, which have been dealt with under IPSAS 41, in order to provide non-authoritative guidance over them. Since non-authoritative guidance from an authority such as the IPSAS Board tends to become authoritative in fact, if not in principle, this move may be hazardous. We encourage the IPSAS Board, therefore, to be more precise and to prevent from diversity in practice, by giving more guidance and by running two separate projects for monetary gold and currency in circulation, especially when answering questions raised in the definition section for the sake of transparency and comparability as prerequisites of the paramount accountability objective.

**Our two main concerns are about 'monetary gold' and 'currency in circulation'. These two items need to be addressed by separate projects. Non-authoritative indications are not sufficient. These projects could be informed by the guidance provided in ESA 2010.**

**Monetary gold** is currently held by central banks as a reserve asset. If gold may be accounted for as a

financial asset, as suggested, it should be valued at current values. In commodity markets, gold current prices have been highly speculative involving material fluctuations. This may undermine a true and fair view of government finances by accounting for unrealised capital gains and losses over gold reserves, while encouraging governments to pursue dysfunctional reactions to those fluctuations. Therefore, **an individual “gold project”** is needed.

**Issued currency** is another critical matter. We differentiate two cases: (a) issuance against debt securities; and (b) without such a purchase.

Ad (a): When a central bank issues currency, it generally buys government debt securities against the issue. These two mutual positions may be offset by consolidation. Accounting for both “issued currency” and the related “government debt” position would result in double counting.

Ad (b): If currency is held by third parties, it seems not faithfully representative to evaluate it as a real right on government assets, since it does generally consist of paper money issued by fiat<sup>1</sup>. Contrary to a financial liability, this is an in-kind conversion that does not involve any “real” financial promise or “real” financial obligation. Issued currency should not, therefore, be accounted for as a liability on the central bank’s balance sheet.<sup>2</sup>

Against the backdrop of those two cases, the IPSAS Board should consider to address the open questions by a **separate “issued currency project”**.

---

<sup>1</sup> See Biondi, Y. and Sierra, M. (2018), Financial Sustainability and Public Debt Management in Central Government. in: M. P. R. Bolívar ed. “Financial Sustainability in Public Administrations,” Basingstoke (UK): Palgrave Macmillan Pub. DOI: [http://dx.doi.org/10.1007/978-3-319-57962-7\\_7](http://dx.doi.org/10.1007/978-3-319-57962-7_7), providing further references.

<sup>2</sup> A special non-distributable reserve may be set in the equity section, if the usual threefold classification among asset/liability/equity has to be maintained.

**Specific Matter for Comment 1**

**Do you agree with the proposed amendments to IPSAS 41, Financial Instruments?  
If not, what changes would you make to the proposals?**

**Scope of ED 69 (amendments to the Basis for Conclusions):**

The IPSAS Board identified seven types of public sector specific financial instruments: 1. Monetary gold; 2. Special Drawing Rights; 3. IMF quota subscriptions; 4. Currency in circulation; 5. Statutory receivables/payables; 6. Concessionary loans; 7. Financial guarantee contracts. (ED 69.BC.3A).

The IPSAS Board agreed to address these instruments, if possible, in the current financial instruments standard (ED 69.BC3D).

Rationale/IPSAS Board (scope) conclusions:

1. *Monetary gold*: additional implementation guidance should be developed (ED 69.BC3E);
2. *Currency in circulation*: additional implementation guidance should be developed (ED 69.BC3E);
3. *Special Drawing Rights*: additional implementation guidance should be developed (ED 69.BC3E);
4. *IMF quota subscriptions*: no need for additional guidance, as the features are those of Illustrative Example 32 (ED 69.BC3E), what is to be expressed by a clarifying amendment of Illustrative Example 32;
5. *Statutory payables and receivables*: both do not meet the definition of a financial instrument because they are not contractual. They should be addressed in a separate project (ED 69.BC3B);
6. *Concessionary loans*; and
7. *Financial guarantee contracts*: both are financial instruments and were addressed in the application guidance in IPSAS 41 (ED 69.BC3B).

**Response:**

We agree with the decision that there is no further guidance needed for concessionary loans and financial guarantee contracts and to the limited modification of the Illustrative Example 32 (by adding “or similar international organisation”; ED 69 IE211) in order to link this example to IMF quota subscriptions. But **monetary gold and currency in circulation may require more sophisticated guidance than that provided by ED 69**. Therefore, the IPSAS Board should consider initiating two separate projects one for gold and another one for issued currency. Also, each project could be informed by the guidance and the case distinctions in ESA 2010.

<b>Monetary Gold</b> (amendments to the Basis for Conclusions):	<b>Monetary Gold</b> (amendments to the Implementation Guidance: Section B: Definitions):
<p>“As part of the Public Sector Financial Instruments project, the IPSAS Board considered accounting for gold held by monetary authorities as reserve assets that are available to monetary authorities in carrying out their mandates, i.e., monetary gold. Some constituents indicated the scope of IPSAS 41 should be expanded to include monetary gold as it shares several characteristics with a financial asset. For example, monetary gold is:</p>	<p><b>“Is monetary gold a financial instrument (like cash)?</b></p>
<p>a. Readily convertible into cash;</p>	<p>No. Similar to gold bullion, monetary gold is not a financial instrument as there is no contractual right to receive cash or another financial asset inherent in the item. However, given that monetary gold has many of the characteristics of a financial asset, applying the principles set out in IPSAS 41 is generally appropriate under the hierarchy set out in paragraphs 9–15 of IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors. It may however be appropriate for an entity to consider other IPSAS depending on the facts and circumstances related to its holding of monetary gold.” (ED 69 IG.B1.1.1.)</p>
<p>b. Quoted globally in US dollars;</p>	
<p>c. Easily traded with willing counterparties (durable, divisible and portable);</p>	
<p>d. Accepted as a form of payment by some central banks; and</p>	
<p>e. A store of wealth.</p>	
<p>Furthermore, monetary gold can be held:</p>	
<p>a. For its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets; and</p>	
<p>b. For an indeterminate period of time, because it provides confidence in the monetary authority’s financial strength and ability to carry out its activities.” (ED 69.BC18A)</p>	
<p>Nevertheless, “monetary gold is not a financial instrument. ... there is no contractual right to receive cash or another financial asset.” (ED 69.BC18B)</p>	
<p>As the IPSAS Board does not expand the scope of IPSAS 41, the reporting entity could conclude, that the principles of IPSAS 41 could be appropriate for monetary gold when closing the respective accounting gap for monetary gold in applying “the hierarchy set out in paragraphs 9–15 of IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.” (ED 69.BC18C)</p>	
<p>“... the hierarchy set out in IPSAS 3 requires an entity to assess all facts specific to the circumstances related to the holding of monetary gold. Should an entity account for monetary gold using principles consistent with those applied to financial assets, the IPSASB expects all classification and measurement requirements set out in IPSAS 41 to be applied.” (ED 69.BC18D)</p>	

**Response:**

We agree with the decision not to expand the scope of IPSAS 41. However, current rules allow for a broad range of measurement opportunities, resulting in a foreseeable diversity in practice.<sup>3</sup> In addition, the analogous application of IPSAS 41 results in solutions that seem to be neither convincing nor appropriate. Therefore, the IPSAS Board should consider running **an individual project on monetary gold**. The reasoning behind our conclusion is indicated above (in the section “Core assumptions”) and in the following.

Accounting practice requires compliance with the IPSAS 3.9-15 hierarchy. We agree that this could result in an accounting policy to be derived from IPSAS 41. Nevertheless, we encourage the IPSAS Board to be more precise on alternative measurement possibilities (perhaps according to IPSAS 16 or 17 - see below), because it has been argued that, an IPSAS 41 analogy is one possibility (“could”), and because the measurement consequences of an analogous IPSAS 41 application do not seem to be appropriate.

What are the consequences of an IPSAS 41 application? Monetary gold held (a) as a contribution to financial capacity; and (b) to strengthen confidence, which has to be classified by two criteria:

- management model: here “hold (and sell)”,
- contractual cash flows (i.e. payments for the principal and interests on the principal outstanding): here no contractual cash flows.

According to this, monetary gold should be measured “at fair value through surplus or deficit”<sup>4</sup>. To our mind, however, monetary gold serving as reserve asset should **rather be measured at amortized cost** for the sake of accountability, as its fair value changes do not reflect any kind of “performance”. This is why the fair value measurement does not seem to be appropriate.

With respect to the status quo, how can more appropriate measurement alternatives be identified? In applying the IPSAS 3 hierarchy, a reporting unit could find an analogy between land (held as a reserve asset) and monetary gold (held as a reserve asset) because both are non-monetary and non-depreciable assets that support the “business model” – perhaps for more than one period – by (indirectly) fostering its operational capacity. Following these basic similarities, IPSAS 17 (rather than IPSAS 16) could be considered for analogous application. Consequently, monetary gold could be measured “at cost” according to IPSAS 17 (or IPSAS 16 alternative treatment) or “at fair value through net assets/equity” (revaluation option included in IPSAS 17) or “at fair value through surplus or deficit” (preferred treatment according to IPSAS 16, but, in our opinion, inappropriate for monetary gold).<sup>5</sup>

**Summarizing**, we agree that the hierarchy set out in paragraphs 9-15 of IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors, has to be applied. However, considering all facts and circumstances related to the holding of monetary gold, this consideration could lead to a broad range of accounting policies (e.g. derived from IPSAS 16, 17, or 41). Therefore, we encourage the Board to **run an own project for the monetary gold item**, instead of the proposed amendments to IPSAS 41. Otherwise, more guidance is needed as to which IPSAS (besides IPSAS 41) is considered to be appropriate for measuring monetary gold (and why); and at least one example should be given.

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<sup>3</sup> <https://www.cemla.org/actividades/2019-final/2019-04-banca-contabilidad-finanzas/2019-04-banca-contabilidad-finanzas7.pdf>; <https://www.centralbanking.com/central-banks/governance/financial-reporting/4500011/a-spotlight-on-ipsas-draft-69>.

<sup>4</sup> The irrevocable option to measure “at fair value through net assets/equity” is limited to equity instruments (IPSAS 41.43) and therefore not available.

<sup>5</sup> The subsequent measurement alternative “at fair value through net assets/equity” means, that fair value changes should be disaggregated in “gold price” and “foreign currency (i.e. US-\$) effects”, because US-\$ are considered as transaction currency for gold and currency effects must be recorded in surplus and deficit according to IPSAS 4 (The Effects of Changes in Foreign Exchange Rates). As explained above, these effects may provide potentially harmful information for decision-making and accountability purposes.

**Currency Issued as Legal Tender (amendments to the Implementation Guidance: Section B: Definitions):****“Does issuing currency as legal tender create a financial liability for the issuer?”**

It depends. Currency derives its value, in part, through the statutory arrangement established between the issuer and the holder of the currency whereby currency is accepted as a medium of exchange and is recognized legally as a valid form of payment. In some jurisdictions, this statutory arrangement further obligates the issuer to exchange currency when it is presented by holders and may explicitly indicate that currency is a charge on government assets.

For the purposes of this Standard, an entity considers the substance rather than the legal form of an arrangement in determining whether there is a contractual obligation to deliver cash. Contracts are evidenced by the following:

- Willing parties entering into an arrangement;
- The terms of the contract create rights and obligations for the parties to the contract; and
- The remedy for non-performance is enforceable by law.

When laws and regulations or similar requirements enforceable by law, such as a banking act, set out the requirements and responsibilities of an entity to exchange outstanding currency, a “contract” exists for the purposes of this Standard. A financial liability is created when an entity issues currency to the counterparty as, at this point, two willing parties have agreed to the terms of the arrangement. Prior to currency being issued, there is no transaction between willing parties. Unissued currency does not meet the definition of a financial instrument. An entity applies paragraph 13 of IPSAS 12, Inventories, in accounting for any unissued currency.” (ED 69 IG.B1.2.1.)

**Response:**

The IPSAS Board should reconsider to run a **separate project on issued currency**, as the proposed amendment to IPSAS 41 raises concerns and requires differentiations:

- by transactions (e.g. – besides unissued currency – (a) currency issued against government debt securities; and (b) other issuance of currency); and
- by systems (e.g. fiat money regimes).

The reasoning behind our conclusion is indicated above (please refer to the section “Core assumptions”) and in the following.

We agree with the conclusions:

- to measure unissued currency according to IPSAS 12.13 (Inventories), but encourage the IPSAS Board to clarify the point in time, when printed, coined (or digital e-) currency turns from inventory to issued currency.
- to the existence of a contract, if a banking act for example, requires the exchange of outstanding currency.

However, for the assessment of whether the existence of a contract leads to a financial liability, when an entity issues currency to the counterparty, substance over form considerations are needed, especially in fiat money regimes. The crucial point for the treatment of the case (b) here is against what the outstanding currency has to be exchanged by its issuer. Under fiat money regimes, the central bank only promises to convert old currency (i.e. old bills) to new currency (i.e. new bills) at par. This implies an in-kind conversion at nominal value, which, in substance, does not involve any financial promise or financial obligation concerning the economic value of the currency or its conversion in another asset (such as gold). **Unless the laws and regulations require the issuer to convert currency into another financial asset, no financial liability is created.**

Moreover, pro-cyclical effects and feedbacks may be generated between the valuation of currency as a financial liability (for the central bank, and a financial instrument when held by the government) at its current exchange rates, and the public debt value dynamics (and its underlying credit worthiness). For instance, when the exchange rate goes up, the issued currency becomes more valuable in terms of foreign currencies, while the corresponding central bank liability increases in value, generating holding capital losses for the central bank that issued it.

Special Drawing Rights Holdings (SDR) (amendments to the Implementation Guidance: Section B: Definitions):

“Do Special Drawing Rights Holdings (SDR) meet the definition of a financial asset?”	“Do Special Drawing Rights Allocations meet the definition of a financial liability?”
Yes. SDR holdings represent a claim on the currencies of members of the International Monetary Fund (IMF). SDR’s can be used in transactions with the IMF or can be exchanged between participants of the IMF’s SDR Department. Liquidity is guaranteed by a mechanism requiring participants to deliver cash in exchange for SDRs. Accordingly, SDR holdings are regarded as a financial asset.” (ED 69 IG.B1.2.2.)	Yes. SDR allocations represent the obligation assumed when SDR holdings are distributed to members. IMF members must stand ready to provide currency holdings up to the amount of their SDR allocation. This represents a contractual obligation to deliver cash. Accordingly, SDR allocations are regarded as a financial liability. ...” (ED 69 IG.B1.2.3.)

**Response:**

We agree with these interpretations.

Furthermore, we agree in the differentiation of SDR holdings and allocations leading to separate assets and liabilities with separate disclosures and no offsetting option.<sup>6</sup>

<sup>6</sup> Centralbanking: A spotlight on ED 69 (<https://www.centralbanking.com/central-banks/governance/financial-reporting/4500011/a-spotlight-on-ipsas-draft-69>).

Date: 16<sup>th</sup> January 2020

Signed on behalf of the persons listed below:

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**Re: Response to Exposure Draft *Public Sector Specific Financial Instruments: Amendments to IPSAS 41*, Financial Instruments**

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft *Public Sector Specific Financial Instruments: Amendments to IPSAS 41*, Financial Instruments published in August 2019 (ED69).

Given the characteristics of the Eurosystem, we appreciate that the proposed guidance take the form of non-authoritative guidance. This is essentially what we were looking forward to when providing comments to the Consultation Paper in January 2017.

Responses to the detailed questions set out in the ED are presented in the appendix.

Yours sincerely,

Michel Prada





## APPENDIX

### *Specific Matter for Comment 1*

*Do you agree with the proposed amendments to IPSAS 41, Financial Instruments?*

*If not, what changes would you make to the proposals?*

We appreciate the effort put in developing additional guidance. We do have two minor suggestions that we believe would help users and preparers in dealing with those public sector specific instruments.

Firstly, with respect to monetary gold, we would suggest adding to paragraph B.1.1 some of the common characteristics that monetary gold shares with financial instruments, though it does not strictly meet the definition of financial instruments. Illustrating in what monetary gold “has many of the characteristics of a financial asset” would help preparers. For instance, it could be useful to move some of the sub items in BC18A to B.1.1.

Secondly, with respect to IMF quota subscriptions, we wonder why they are not listed in paragraph B.1.1 with a question as to whether they meet the definition of financial instruments. We understand that Illustrative Example IE211 deals with those subscription rights, still we would recommend for ease of reference that B.1.1 also address IMF quota subscriptions. We believe this would enhance completeness of Implementation Guidance on the topic.

Eventually, we think that it could be useful to not only assess the nature of the instruments, but also to add how they could be measured, as it was a specific area of discussion within the Consultation Paper. Else, we believe that it could be mentioned in the Bases for Conclusions why the Board did not wish to proceed with guidance on measurement.