



ED 150

Responses due by 11 November 2016

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON THE CONSULTATION PAPER OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

ON

PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS

(ED 150)

Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the International Public Sector Accounting Standard Board's (IPSASB) Consultation Paper on *Public Sector Specific Financial Instruments* (ED 150). Comment received on this Exposure Draft will be used in formulating a response to the IPSASB.

Comment should be submitted in writing so as to be received by **11 November 2016**. E-mail responses are preferred. Unless respondents to the Exposure Draft specifically request confidentiality, the comment is a matter of public record once the pronouncement has been issued. Comment should be addressed to:

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Background to this Exposure Draft

Background to the project

The IPSASB published its Consultation Paper on *Public Sector Specific Financial Instruments* in July 2016. The purpose of the Consultation Paper is to discuss, and receive feedback on, possible definitions and accounting alternatives for specific monetary assets, liabilities, and other instruments that are unique to the public sector.

The Consultation Paper discusses the following topics:

- Currency issued by the government.
- Monetary gold.
- Subscriptions in the International Monetary Fund.
- Special Drawing Rights.

While the title of the Consultation Paper refers to these assets, liabilities and other instruments as “financial instruments”, some of the instruments are not financial instruments as defined in IPSAS 28 *Financial Instruments: Presentation* (or GRAP 104 on *Financial Instruments*). When the IPSASB developed the IPSASs on financial instruments, it agreed that these transactions, although they have similar characteristics to financial instruments, should be considered as part of a separate project. This is because they possess unique characteristics and are used to achieve particular policy and other objectives in the public sector.

The Consultation Paper is a critical development in the IPSASB’s work as no accounting guidance currently exists for these transactions. As these instruments can have a significant impact on entities’ financial statements, it is important that a clear, consistent accounting treatment is applied.

Impact of the Exposure Draft in South Africa

In South Africa, it is the South African Reserve Bank (SARB), and to a limited extent, the National Treasury, that holds these assets, liabilities or other instruments.

The Board has not developed specific guidance in these areas, in part because the SARB applies International Financial Reporting Standards (IFRSs). However, because no clear guidance exists either from the ASB or the International Accounting Standards Board (IASB) on how to account for these assets, liabilities and other instruments, it is vital that clear guidance is developed that considers the views of local respondents

Due process and timetable

The due process followed by the Board in developing Standards of GRAP is for the Board to receive comment on the proposals set out in the Exposure Draft from

preparers, users, auditors, standard setters and other parties with an interest in public sector financial reporting. Accordingly, all interested parties are invited to provide comment.

Invitation to comment

Comment is invited by **11 November 2016** on this Exposure Draft. The comment period locally is shorter than the international process to enable the Board to review and collate the comment received prior to submission to the IPSASB.

General matters for comment

The Board requires that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and supplement this opinion with detailed comment, whether supportive or critical, on the principles in the Exposure Draft.

As with any other Exposure Draft, comment on any other matter would be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs in your response.

Specific matters for comment

The Board also seeks input on Preliminary Views expressed by the IPSASB in its Consultation Paper, as well as feedback on specific issues raised by the IPSASB. The Preliminary Views and Specific Matters for Comment on which the IPSASB requires feedback, are outlined below.

Preliminary View – Chapter 2 (following paragraph 2.9)

Definitions are as follows:

(a) Monetary authority is the entity or entities, including the central bank or a department(s) of the central (national) government, which carry out operations usually attributed to the central bank.

(b) Reserve assets are those external assets held by monetary authorities that are readily available for balance of payments financing needs, intervention in the currency markets to affect exchange rates and maintaining confidence in the currency and the economy.

Do you agree with the IPSASB's Preliminary View – Chapter 2?

Preliminary View – Chapter 3-1 (following paragraph 3.10)

Definition is as follows:

Currency in Circulation is physical notes and coins with fixed and determinable values that are legal tender issued by, or on behalf of the

monetary authority, that is, either that of an individual economy or, in a currency union to which the economy belongs.

Do you agree with the IPSASB's Preliminary View – Chapter 3-1?

Preliminary View – Chapter 3-2 (following paragraph 3.30)

Notes and coins (currency) derive value because they are legal tender and accepted as a medium of exchange and therefore serve the same purpose and function in the economy. As the purpose and function of notes and coins is the same, the IPSASB's view is the accounting treatment should be consistent for both (as noted in paragraph 3.12), with the recognition of a liability when issued.

Do you agree with the IPSASB's Preliminary View – Chapter 3-2?

Specific Matters for Comment – Chapter 3-1 (following paragraph 3.43)

When the monetary authority assesses that a present obligation does not exist as a result of the issuance of currency, because of the absence of a legal or non-legally binding obligation (approach 1), it results in the recognition of revenue (approach 2), please explain your view and your thoughts on what is the appropriate financial statement in which to recognize revenue:

(i) Statement of financial performance; or

(ii) Statement of net assets/equity?

Please provide the reasons for your support of your preferred option, including the conceptual merits and weaknesses; the extent it addresses the objectives of financial reporting and how it provides useful information to users.

Preliminary View – Chapter 4 (following paragraph 4.14)

Definitions are as follows:

(a) Monetary gold is tangible gold held by monetary authorities as reserve assets.

(b) Tangible gold is physical gold that has a minimum purity of 995 parts per 1000.

Do you agree with the IPSASB's Preliminary View – Chapter 4?

Specific Matters for Comment – Chapter 4-1 (following paragraph 4.50)

Should entities have the option to designate a measurement basis, based on their intentions in holding monetary gold assets (as noted in paragraphs 4.5-4.6)?

Please provide the reasons for your support for or against allowing an option to designate a measurement basis based on intentions.

Specific Matters for Comment – Chapter 4-2 (following paragraph 4.50)

Please describe under what circumstances it would be appropriate to measure monetary gold assets at either:

- i. Market value; or*
- ii. Historical cost?*

Please provide reasons for your views, including the conceptual merits and weaknesses of each measurement basis; the extent to which each addresses the objectives of financial reporting; and how each provides useful information.

If you support measurement based on intentions as discussed in SMC 4-1, please indicate your views about an appropriate measurement basis for each intention for which monetary authorities may hold monetary gold, as discussed in paragraph 4.5 (i.e., intended to be held for its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets, or intended to be held for an indeterminate period of time).

Preliminary View – Chapter 5-1 (following paragraph 5.12)

Definitions are as follows:

- (a) The IMF Quota Subscription is the amount equal to the assigned quota, payable by the member on joining the IMF, and as adjusted subsequently.*
- (b) SDR Holdings are International reserve assets created by the IMF and allocated to members to supplement reserves.*
- (c) SDR Allocations are obligations which arise through IMF member's participation in the SDR Department and that are related to the allocation of SDR holdings.*

Do you agree with the IPSASB's Preliminary View – Chapter 5-1?



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Preliminary View – Chapter 5-2 (following paragraph 5.33)

SDR allocations satisfy the Conceptual Framework definition of a liability and should be recognized, with measurement at market value.

Do you agree with the IPSASB's Preliminary View – Chapter 5-2?