



Comments due by 17 December 2019

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD'S EXPOSURE DRAFT

ON

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

(ED 179)



Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the International Public Sector Accounting Standards Board's (IPSASB) Exposure Draft of *Public Sector Specific Financial Instruments: Amendments to IPSAS 41, Financial Instruments*.

The proposals in this Exposure Draft will be used to formulate a comment letter to the IPSASB. Comment should be submitted in writing so as to be received by **17 December 2019**. Email responses are preferred.

Unless respondents to this Exposure Draft specifically request confidentiality, their comment is a matter of public record once the pronouncement has been issued. Comment should be addressed to:

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Introduction

Standards of Generally Recognised Accounting Practice

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (including national, provincial and government components);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities” in Standards of GRAP.

The Board has approved the application of International Financial Reporting Standards (IFRS[®] Standards) issued by the International Accounting Standards Board[®] for:

- (a) public entities that meet the criteria outlined in the Directive on *The Selection of an Appropriate Reporting Framework by Public Entities*; and
- (b) entities under the ownership control of any of these entities.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations.

The status and authority of appendices are dealt with in the preamble to each appendix. Standards should be read in the context of their objective, basis for conclusions if applicable, the *Preface to Standards of GRAP*, the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Reference may be made to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued



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when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Background to this Exposure Draft

Background

When the IPSASB undertook its first project on financial instruments, it identified items that have the characteristics of financial instruments, but that do not necessarily meet the definition of a financial instrument in IPSAS 28 on *Financial Instruments: Presentation*, or where further analysis was required. These items included:

Item	Description
Monetary gold	<p>Gold held by the central bank in each jurisdiction which is held as part of its “reserve assets”. Monetary gold can be used in the same way as a currency to settle transactions, but only between central banks.</p> <p>Monetary gold is not considered to be a financial instrument because settlement occurs in a commodity and not a financial asset.</p>
Notes and coins in circulation	<p>Notes and coins issued by the central bank or other authority in a jurisdiction. Notes and coins are used as a means of settling transactions, and often represent a draw down on the issuing government’s assets – either to honour the value of the notes or coins, or to replace the notes or coins with an equivalent if damaged.</p> <p>The actual note represents a contractual arrangement between the central bank and the holder, and therefore meets the definition of a financial instrument.</p>
Subscriptions with the International Monetary Fund (IMF)	<p>Initial investment made in the IMF. This is not an equity investment, but similar to a puttable instrument. The arrangement is a contractual arrangement between the IMF and the participating government that entitles the participating government to the return of a financial asset, and therefore meets the definition of a financial instrument.</p>
Special Drawing Rights	<p>Initial contribution to participate in the SDR department of the IMF, as well as an allocation of rights (based on a specific formula) which can be used to trade with other SDR holders. The arrangement is a contractual arrangement between the IMF and a participating government that entitles the holder of SDRs to the return of a financial asset, and therefore meets the definition of a financial instrument.</p>

The IPSASB’s initial approach to deal with these items was to discuss their potential accounting treatment in a Consultation Paper on *Public Sector Specific Financial Instruments* issued in 2016.

Based on feedback received, it was observed that many of the items are either financial instruments or have characteristics that are similar to financial instruments. Respondents also observed that many of the items are held by central banks or similar authorities that either apply International Financial Reporting Standards (IFRS® Standards) or their own accounting policies because of statutory requirements. As a result, it was questioned how extensive any guidance should be from the IPSASB given the limited applicability to IPSAS.

As some central banks or treasuries may apply IPSAS, the IPSASB decided to provide some guidance on these transactions. However, instead of issuing separate guidance (particularly



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for those transactions that do not meet the definition of a financial instrument), the IPSASB agreed to modify the examples in IPSAS 41 on *Financial Instruments*.

Potential implications locally

A key user of the guidance locally would be the National Treasury once national departments adopt accrual accounting. The South African Reserve Bank applies IFRS Standards.

The Board would need to consider whether, and how, to adopt this guidance locally in a future work programme consultation.

Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting. Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft. Comment received will be used to formulate a comment letter to the IPSASB.

Request for comment

Comment on this Exposure Draft is invited by **17 December 2019**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate. The basis for accepting or rejecting significant comment will be published on the website.

General matters for comment

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

Specific matters for comment

The IPSASB would like feedback on the question outlined below:

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

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