PO Box 1077
St Michaels, MD 21663
USA
T. 410-745-8570
F. 410-745-8569

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The Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West, 6th Floor

Toronto, Ontario M5V 3H2

CANADA

Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultation Paper “Public Sector Specific Financial Instruments”
2. We welcome the Consultative Paper as it addresses important financial reporting issues. Our comments are in in the attached paper.
3. We appreciate the opportunity to comment on this Consultation Paper 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 or on +44 7525 763381.

Yours faithfully,

Michael Parry

Michael Parry

ICGFM Accounting Standards Committee

Michael Parry, Chair	Mark Silins
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Cc: Jack Maykoski, President, ICGFM

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Response to Consultation Paper

Public Sector Specific Financial Instruments

Overall comments

This Consultative Paper deals with three very specific categories of financial instruments – currency in circulation, monetary gold and Special Drawing Rights (SDRs) - from the reporting perspective of the monetary authority.

We know that these are reporting issues of concern to many countries and welcome the aim of providing guidance. We also support the stated intent of aligning, as far as feasible, such guidance with the IMF Government Finance Statistics (GFS) approach.

Specific Matter for Comment Chapter 2

Chapter 2 Proposed definition (a) of monetary authority

(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.*

Response

We think the proposed definition is lacking in clarity. We would suggest instead:

The monetary authority is the entity which performs the functions of currency issue, maintenance of international reserves, operation of exchange stabilization funds, and transactions with the International Monetary Fund (based on GFS Para 2.29)

The monetary authority functions are typically performed by the central bank, but there are at least four other options, as summarised in the table on the next page.

Situation	Monetary Authority	Financial Reporting	
		IPSAS	GFS
1. Central Bank performs all monetary authority functions	Central Bank	Consolidated into whole of government reports if controlled by central government as defined by IPSAS 35	Not consolidated for GFS reporting
2. A unit within central government performs the functions of the monetary authority	Virtual entity within GGS	Units within Central Government are all consolidated in central government financial reports	Treated as a virtual entity which would be consolidated since part of GGS
3. Central Bank within monetary union	According to GFS Para 2.21 the monetary union central bank will have an office in each member country which office acts as the monetary authority for that country	Not consolidated	Not consolidated
4. Country uses currency of another country (e.g. US$) as national currency	Either 1 or 2 above	As with 1 or 2 above as applicable, but monetary authority will not issue currency nor hold monetary gold	
5. Currency issued by a commercial bank	Either 1 or 2 above	Commercial bank is acting as an agent of the monetary authority issuing currency. Any liability for currency issues depends on form of contract between monetary authority and currency issuing banks. Other financial instruments as with 1 or 2 above	

The Consultation Paper does not discuss the above different situation or the reporting requirements under each situation. We consider these issues important, especially as they determine whether the assets and liabilities discussed in this paper will be assets and liabilities of central government or of an entity (the Central Bank) within the Corporate Sector which may, or may not, be consolidated with central government.

In particular;

- Under Situation 1, the monetary authority (Central Bank) would be:
    - Consolidated under IPSAS if the Central Bank was deemed to be controlled by central government. If not controlled, then the Central Bank would not be consolidated in the whole of government financial reports
    - Not consolidated for GFS reporting because not part of the GGS
- Under Situation 2, GFS recommends (para 2.89) that the unit of central government acting as the monetary authority is treated as a virtual entity and reported separately, but consolidated as part of the GGS. We consider this good practice and would **recommend** this approach be adopted for IPSAS.

GFS suggests in the latter situation, the transactions of the unit performing the functions of a monetary authority are separately identified, i.e. the monetary authority is treated as a virtual entity with the General Government Sector. We concur with this approach because to include the monetary authority in Central Government's own accounts could be misleading. As a separate entity the virtual monetary authority would be consolidated with central government but nor form part of central government's own financial reports.

Chapter 2 Proposed definition (b) of Reserve assets

> ***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.*

Response

This definition is based on the IMF Balance of Payments International Position Manual Sixth Edition (2009). The exact words in that Manual are "*external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing)*"

We would **recommend** that the above exact wording is used as the definition.

Specific Matter for Comment Chapter 3-1 (following paragraph 3.10)

Definition of currency in circulation

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.

Response

GFS uses the term "fixed nominal value" rather than the proposed "fixed and determinable". We can see no good reason for not using the GFS simpler wording (otherwise it raises the question "determinable by whom?").

The use of the phrase "physical notes and coin" is likely to be made out-of-date with the introduction of digital money now being considered by several monetary authorities. However, digital currency will raise many new issues, so we do not propose any changes to the wording.

For the sake of clarity, the definition of currency in circulation should exclude notes that have been printed, or coins minted, but that have not yet been issued for circulation by the monetary authority and hence are not incircualtion.

Specific Matter for Comment Chapter 3-2 (following paragraph 3.30)

Notes and coin liability

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.

Response

We do not agree. It is our view that the issuance of notes and coins is the creation of an asset without a corresponding liability. The idea that notes and coin are exchangeable for another asset (except replacement of damaged notes or coins) is not meaningful. Whether or not this is specified in law does not seem relevant, since a sovereign government can change the law. Where such rights to exchange currency for other assets exists this is usually because the law has not been updated to reflect modern practice.

Therefore, increasing notes and coins in circulation is in our view an increase in the monetary assets of a country without any corresponding liability. It is of the same nature as the discovery of gold deposits that are added to a country's monetary gold reserves. Neither add to the productive assets, but both increase the monetary assets within a country.

Specific Matter for Comment Chapter 3-3 (following paragraph 3.43)

Gain on issue of currency

(a) 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?

Response

As noted above, physical currency is today a relatively minor part of an economy and the amount in issue is usually based on transactional requirements. What matters is not the issuance of currency, but the increase or decrease, which is as noted likely to vary on seasonal basis. To treat this as a revenue or expense would be misleading. Any change should be directly accounted for in net equity.

Specific Matter for Comment Chapter 4 (following paragraph 4.14)

Definitions

(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.

Response

The IMF GFS uses the following terms and definitions:

(a) Monetary gold is gold to which the monetary authorities (or others who are subject to the effective control of the monetary authorities) have title and is held as a reserve asset

(b) Gold bullion takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1,000, including such gold held in allocated gold accounts

We can see no good reason for using different definitions or terminology. We would therefore **recommend** the use of the GFS definitions.

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

Ability to decide measurement basis for monetary gold

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)?

Response

No – see below

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

Monetary gold

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

i. Market value; or

ii. Historical cost?

Response

Our view is that this discussion is making something complex whereas the reality is very simple. By definition monetary gold can only be traded between monetary authorities or international financial organisations. This is an organised market with known process. We can see no reason for using any valuation other than market value. We therefore **recommend** option (1) above.

Specific Matter for Comment Chapter 5-1 (following paragraph 5.12)

Definitions

(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.

Response

(a) We think the proposed definition is redundant and obscure. A simpler definition is that the "*IMF Quota is the capital subscription, expressed in SDRs, that a member country must pay on joining the IMF. The Quota is subject to periodic review and adjustment.*"

(b) Agreed

(c) The IMF definition is clearer: "S*DR allocations constitute a (debt) liability of the recipients (and part of the public sector's debt liabilities) and the SDR holdings are part of the public sector's financial assets.*"

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

IPSASB view

(a) The IMF Quota Subscription satisfies the Conceptual Framework definition of an asset and should be recognized, with initial measurement at historical cost. Subsequent measurement may be at historical cost when the translated value of the quota subscription equals the cumulative resources contributed to the IMF, when it does not it should be measured at net selling price.

(b) SDR holdings satisfy the Conceptual Framework definition of an asset and should be recognized, with measurement at market value.

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

Response

In all cases these would be assets or liabilities of the monetary authority.

(a) The IMF quota subscription is paid to the IMF as follows:

   i. 25% in SDRs are a specified currency (e.g. US$, £)

   ii. The remaining 75% may be paid either in domestic currency or in promissory notes of the member country.

   Promissory notes are both an asset and a liability. In other respects we agree with the IPSASB view.

(b) Agreed

(c) Agreed.