



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Public Sector Specific Financial Instruments

(Proposed non-authoritative amendments to PBE IPSAS 41)

Exposure Draft

Consultation document

April 2022

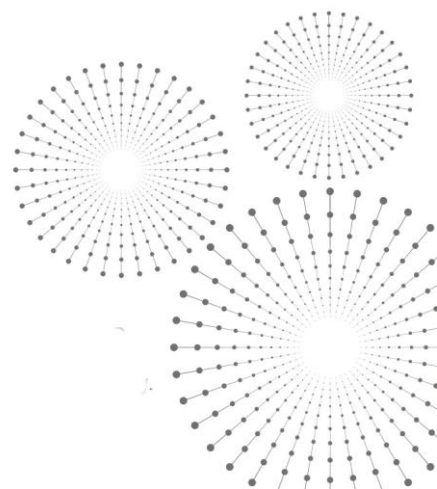


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Consultation questions

Paragraphs

1	Do you agree with the proposal to incorporate amendments equivalent to <i>Non-Authoritative Amendments to IPSAS 41, Financial Instruments</i> as issued by the IPSAB into PBE IPSAS 41 <i>Financial Instruments</i> ? If you disagree, please explain why.	22-28
2	Do you agree with the proposed effective date of the amendments of 1 January 2023 with early adoption permitted? If you disagree, please explain why.	32-33
3	Do you have any other comments on the proposals in this ED?	1-33

How to provide feedback

Responding to questions

We are seeking comments on the questions raised in this consultation document. We will consider all comments before finalising the proposed non-authoritative amendments to PBE IPSAS 41 *Financial Instruments*.

Please feel free to comment on any or all of the questions.

We appreciate detailed comments, whether supportive or critical, as both supportive and critical comments are essential to a balanced view.

Making a submission

You can provide feedback to us via:

- the online form on our website; or
- emailing your formal or informal comments to accounting@xrb.govt.nz.

The consultation closes on **11 July 2022**.

We will put all written submissions on our website unless advised otherwise, and we reserve the right not to publish defamatory submissions.

List of abbreviations

The following abbreviations are used in this consultation document.

ED	NZASB Exposure Draft 2022-4 <i>Public Sector Specific Financial Instruments</i> (Proposed non-authoritative amendments to PBE IPSAS 41)
IMF	International Monetary Fund
IPSASB	International Public Sector Accounting Standards Board
IE	Illustrative Example
IG	Implementation Guidance
IPSAS 41	IPSAS 41 <i>Financial Instruments</i> – an international accounting Standard issued by the IPSASB
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
PBE	Public benefit entity
PBE IPSAS 41	PBE IPSAS 41 <i>Financial Instruments</i> – a New Zealand accounting Standard issued by the XRB
SDR	Special Drawing Rights
XRB	External Reporting Board

1. Introduction

1.1. Objective of the exposure draft

1. The objective of this Exposure Draft (ED) is to propose non-authoritative amendments to PBE IPSAS 41 *Financial Instruments*, to clarify the requirements for classifying, recognising, and measuring certain public sector specific financial instruments.¹
2. The ED proposes amendments to the implementation guidance and the illustrative examples that accompany PBE IPSAS 41 *Financial Instruments* to clarify the accounting treatment of the following public sector specific financial instruments:
 - (a) Monetary gold;
 - (b) Currency in circulation;
 - (c) IMF special drawing rights (SDRs); and
 - (d) IMF quota subscriptions.
3. The objective of the amendments is to promote consistency in how a reporting entity accounts for these specific types of financial instruments.
4. The proposed amendments are based on *Non-Authoritative Amendments to IPSAS 41, Financial Instruments* issued by the IPSASB in December 2020. The inclusion of these amendments in PBE Standards as issued by the XRB will ensure that our standards on financial instruments continue to be aligned with the international public sector accounting standards.

1.2 Scope of amendments

5. The proposals are relevant for Tier 1 and 2 public benefit entities (PBEs), specifically those in the public sector.
6. Due to the specific nature of the amendments, the ED is expected to be largely only relevant to the Reserve Bank of New Zealand and the New Zealand Treasury.
7. The amendments relate to non-authoritative guidance, which accompanies but does not form part of a PBE standard. The guidance is provided to assist entities in applying the requirements of a standard but does not change the underlying principles and requirements of that standard. Non-authoritative guidance does not establish mandatory requirements.

1.3 Background

8. PBE IPSAS 41 was issued by the NZASB in March 2019 and is based on IPSAS 41 *Financial Instruments* issued by the IPSASB in August 2018. PBE IPSAS 41 is effective for annual reporting periods beginning on or after 1 January 2022.

¹ Including some instruments with characteristics similar to financial instruments.

9. Following the issuance of IPSAS 41, the IPSASB decided to provide additional non-authoritative guidance in IPSAS 41 on accounting for public sector specific financial instruments, as proposed in this ED.
10. When a new or amending IPSAS is issued by the IPSASB (including non-authoritative guidance), the NZASB considers whether the changes should be incorporated in PBE Standards as issued by the XRB. The NZASB has considered the *Non-Authoritative Amendments to IPSAS 41, Financial Instruments* issued by the IPSASB, and is proposing to incorporate equivalent amendments into PBE IPSAS 41.

1.4 Consultation period and next steps

11. We welcome feedback on the proposed amendments before incorporating them into our PBE Standards.
12. Submissions on this ED are due by **11 July 2022**. Information on how to make submissions is provided on page 4 of this consultation document.
13. After the consultation period ends, we will consider all the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amendments.

2. Overview of proposed amendments

2.1. Summary of proposals

14. Table 1 summarises the proposed non-authoritative amendments to PBE IPSAS 41. The proposals would amend the implementation guidance (IG) and illustrative examples (IE) that accompany PBE IPSAS 41 but are not part of PBE IPSAS 41.

Table 1: Proposed non-authoritative amendments to PBE IPSAS 41

Instrument	Guidance type	Proposed amendment to PBE IPSAS 41
Monetary gold	Implementation guidance	IG Section B Definitions B.1.1 Monetary gold
Currency in circulation	Implementation guidance	IG Section B Definitions B1.2.1 Currency issued as legal tender
IMF quota subscription	Illustrative example	IE 32 – Capital Subscriptions held with redemption features
IMF special drawing rights (SDR)	Implementation guidance	IG Section B Definitions B1.2.2 SDR Holdings B1.2.3 SDR Allocations

2.2. Proposed modifications

Monetary gold

15. Monetary gold is gold held by monetary authorities as reserve assets which are available to them when they carry out their mandates.
16. Although monetary gold shares several characteristics with financial assets, on balance the IPSASB concluded that there is no contractual right to receive cash or another financial asset and that it is therefore not a financial asset.
17. The IPSASB has previously concluded that gold bullion is a commodity, not a financial instrument, and included implementation guidance to this effect in IPSAS 41. The new clarification on monetary gold is therefore located adjacent to the guidance on gold bullion.
18. The NZASB's understanding is that New Zealand PBEs do not hold monetary gold as described by the ED. Although the NZASB is not aware of the existence of monetary gold in New Zealand, the NZASB is proposing to incorporate this clarification in PBE IPSAS 41, to maintain alignment with IPSAS 41.

Currency in circulation

19. The Reserve Bank of New Zealand has the sole right to issue currency – bank notes and coins – in New Zealand.

20. The ED provides the view that, depending on the arrangements in a jurisdiction, issuing currency as legal tender may or may not create a financial liability for the issuer. An entity needs to consider 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:
- (a) willing parties entering into an arrangement;
 - (b) the terms of the contract create rights and obligations for the parties to the contract; and
 - (c) the remedy for non-performance is enforceable by law.
21. If there is a contractual obligation to deliver cash, then a financial liability is formed when the currency is issued. The ED proposes to add implementation guidance to PBE IPSAS 41 to reflect this position.

IMF quota subscription

22. The IMF is an international cooperative monetary organisation of member countries, established to carry out key activities in three areas: lending, international monetary system surveillance, and capacity building.²
23. On joining the IMF, member countries are assigned a quota based on their relative position in the world economy and pay a subscription equal to the value of the quota — the “IMF quota subscription”. New Zealand joined the IMF in 1961 and, as a member, is subject to the IMF quota system.³
24. IMF quotas are the building blocks of the IMF’s financial and governance structure. They determine the maximum amount of resources a member is obliged to provide to the IMF, the voting rights of members, the amount of financing a member can obtain from the IMF, and a member’s share in the general allocation of special drawing rights (SDRs). SDRs are discussed in the next section.
25. The quota subscription provides members with membership in the IMF; that membership brings rights, benefits, and obligations. Typically twenty-five percent of a member’s quota is paid in reserve assets (SDRs or foreign currency acceptable to the IMF), with the remaining seventy-five percent paid with domestic currency or a promissory note.
26. The IPSASB noted that IMF quota subscriptions share a number of features with those in Illustrative Example 32, *Capital Subscriptions Held with Redemption Features* as currently included in IPSAS 41 and decided that additional guidance for quota subscriptions was not required. An equivalent Illustrative Example 32 is currently provided in PBE IPSAS 41.
27. The NZASB considered Illustrative Example 32 and concluded it was not useful when determining how to account for IMF quota subscriptions because it does not include all the features that are specific to this arrangement. The NZASB noted that each jurisdiction will need to apply the principles and requirements of IPSAS 41 when determining how to account

² For more information on the IMF activities see the following [website](#).

³ For more information on the IMF quota system see the following [website](#).

for IMF quota subscriptions, which will be based on their individual facts, circumstances and how they manage IMF transactions and arrangements.

28. The ED proposes minor amendments to Illustrative Example 32 to include references to “similar international organisations” in addition to the specific reference to “International Development Bank A”, to maintain alignment with IPSAS 41.

Special drawing rights (SDRs)

29. SDRs are international reserve assets created by the IMF and allocated to members to supplement reserves. SDRs are neither a currency nor a claim on the IMF. SDRs are a potential claim on the freely usable currencies of IMF members. SDRs can be exchanged for these currencies.
30. The ED includes implementation guidance for the recognition of SDR holdings and SDR allocations when applying IPSAS 41. The proposed implementation guidance clarifies the following views.
 - (a) SDR holdings represent a claim on the currencies of IMF members and therefore are regarded as a financial asset; and
 - (b) SDR allocations represent the obligation assumed when SDR holdings are distributed to IMF members. These are a contractual obligation to deliver cash and are therefore regarded as a financial liability.

2.3. Reduced disclosure regime

31. The ED does not propose changes to any presentation and disclosure requirements in PBE IPSAS 41. Consequently, the ED does not propose any changes to the existing disclosure concessions for Tier 2 entities.

2.4. Effective date

32. The effective date of PBE IPSAS 41 *Financial Instruments* is 1 January 2022. The proposed effective date of the amendments is 1 January 2023, with early adoption permitted.
33. When incorporated into PBE IPSAS 41, the amendments to the non-authoritative guidance will not themselves have an effective date due to their non-authoritative status.



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