Komite Penyusun Kebijakan Akuntansi Keuangan Bank Indone

Sekretariat Komite Penyusun KAK-BI
Bank Indonesia, Gedung C, Lantai 10, Jl. MH.Thamrin, No.2, Jakarta Pusat, 10350
Telepon: 021-3817018 / 3817150, Fax: 021-34830210, Email: kpkakbi@bi.go.id

Number : 5/ 10 /Srt/KKAK-BI

Jakarta, 28 December 2016

Attachment :

- 1 question-based comments
- 1 paragraph-based comments

Subject: **Comments on IPSASB's Consultation Paper: Public Sector Specific Financial Instrument**

To: International Public Sector Accounting Standard Board (IPSASB)

Dear Colleagues,

On behalf of Bank Indonesia Financial Accounting Policies Committee (Komite Penyusun Kebijakan Akuntansi Keuangan Bank Indonesia/KAKBI Committee), we herewith provide comments on IPSASB's Consultation Paper: Public Sector Specific Financial Instrument, which was published on July 2016. This letter contains general comments and two attachments, which include comments on Consultation Paper's questions and comments on the whole paragraphs in the Consultation Paper.

Central banks have unique characteristics and are different from other entities, including government or other public sector entities. The uniqueness stems from the main objective to be achieved by central banks in general, namely the currency stabilization. Efforts to achieve this objective lead the central bank to implement a variety of unique activities, which are not performed by other entities, such as issuing and circulating the money, and/or carrying out activities with a unique purpose, for example, maintaining securities denominated in foreign currencies as reserves.

The uniqueness mentioned above affects the conceptual framework of central bank's financial reporting. For example, the central banks' ability to achieve their objectives cannot be reflected by their ability to generate cash (and cash equivalents) in the domestic currency, whereas the ability to generate cash (and cash equivalents) is one of the objectives of financial reporting –which is to provide information about liquidity- for other entities, including government and other public sector entities (and therefore the cash flow statement is not an essential element of the financial statements for central banks). *This example shows the need for further assessment on whether the objectives and elements of financial statements in the conceptual framework of the public sector in general is still relevant for central banks?* Another example, central banks have plenty of financial instruments used as policy instruments, which ownership and disposal are based on the need for policy of the central banks, rather than price movements.

Therefore,...

Sekretariat Komite Penyusun KAK-BI
Bank Indonesia, Gedung C, Lantai 10, Jl. MH.Thamrin, No.2, Jakarta Pusat, 10350
Telepon: 021-3817018 / 3817150, Fax: 021-34830210, Email: kpkakbi@bi.go.id

Therefore, the implementation of opportunity gain/loss concept in the recognition of unrealized gain/loss of current period might be not appropriate to be applied to financial instruments owned by central banks. *This example shows the need for further assessment on whether the recognition principle of income/expense in the conceptual framework of the public sector in general is still relevant for central banks?*

The differences in the conceptual framework of financial reporting will significantly have impact the accounting treatment for each group of transactions conducted by central banks, including the three financial instruments that are discussed in the consultation paper: money in circulation, monetary gold, and special drawing rights. Therefore, in our opinion, the analysis of accounting treatments for those three unique financial instruments of central banks should start with a suitability analysis of the conceptual framework of public sector in general and the uniqueness of central banks.

Our studies concluded that central banks have a mixed characteristics of commercial entities and public sector entities, and also have unique characteristics that are not found in other public sector entities. Therefore we developed a specific conceptual framework for Bank Indonesia (BI) by modifying IFRS-based conceptual framework, taking into account the uniqueness of BI as the central bank, so that BI's financial reporting reflects actual business processes better. We herewith attached the conceptual framework of BI's financial reporting, namely "Basic Principles for the Preparation and Presentation of Financial Statements of Bank Indonesia".

In addition to an assessment of the needs of specific conceptual framework for central banks, IPSASB needs to ensure that the development of international accounting standards for unique transactions of central banks has considered the diversity of central banks operational practices in the world. For example, related to the circulation of money, some central banks require the issuance and circulation of money to be backed up by securities issued by the government, but in other central banks, including Bank Indonesia, there is no such requirement.

We also consider that accounting standards for central banks should focus on the unique business processes at the central banks, which are material and have not been regulated by other parties. For example, related to the circulation of money, we believe that the process from purchase of money materials until the money is completed is a non-unique business process, thus it is unnecessary to be regulated by IPSASB (the accounting treatment for purchase of money materials and conversion process can follow the generally accepted accounting principles or public sector accounting standard in general). IPSASB should focus on the accounting treatment for of recognition and measurement of money in circulation. As another example, the value of special drawing rights are immaterial compared to the total assets and liabilities of a central bank and the accounting guidelines are provided by the IMF so that all central banks as members of the IMF will do the same recording. Therefore, it should not be regulated by IPSASB.

This...

Komite Penyusun Kebijakan Akuntansi Keuangan Bank Indonesia

Sekretariat Komite Penyusun KAK-BI
Bank Indonesia, Gedung C, Lantai 10, Jl. MH. Thamrin, No.2, Jakarta Pusat, 10350
Telepon: 021-3817018 / 3817150, Fax: 021-34830210, Email: kpkakbi@bi.go.id

This concludes our general comments on IPSASB's plan to issue specific standards for some unique transactions in central banks. Our specific comments on Consultation Paper's questions and paragraphs are provided in the attachments. Thank you for your kind attention. Should you have any further queries, please do not hesitate to contact KAKBI Committee.

Sincerely Yours,

Rosita Uli Sinaga
Head of Steering Committee
KAKBI Committee

Attachment 1

Comments on Questions in Consultation Paper: Public Sector Specific Financial Instrument

Preliminary View – Chapter 2

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?

Comment(s):

a. We agree with the definition of monetary authority proposed in the Consultation Paper (CP). That definition is commonly used in the central banks practice.

b. We agree with the definition of reserve assets proposed in the CP. That definition has been referred to IMF's definition of reserve assets, which becomes the reference for central banks in the world.

Preliminary View – Chapter 3-1

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?

Comment(s):

- *We do not agree with the definition of Currency in Circulation proposed in CP. The definition more closely reflects the currency that may be still under control or are already back under the control of monetary authorities. Currency in circulation should reflect the currency that has been circulated in the public/is not under the control of monetary authorities. We propose that the definition emphasizes that the currency in circulation covers only currency that has been circulated in the public/is not under the control of monetary authorities.*
- *In addition, we have a question regarding the practice of printing and issuance of currency in Indonesia. Currently, Rupiah is jointly signed by the Government and Bank Indonesia (which is independent from the Government), although the recognition of currency in circulation is still conducted by Bank Indonesia. Does this condition still meet the definition of currency in circulation as proposed in CP?*

Preliminary View – Chapter 3-2

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 (as noted in paragraph 3.12), the IPSASB's view is the accounting treatment should be consistent for both, with the recognition of a liability when issued.

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

Comment(s):
We agree with IPSASB's view stated in CP that the accounting treatment for notes and coins should be consistent, and liability is recognized upon issuance. The difference in types/money materials does not affect the transaction substance of issuance of both currency types. At the time of issuance, notes and coins have claims at nominal value, not intrinsic value. Liability incurred by the circulation of both currency types is also equal to the nominal value. Thus the recognition of both should be equal, which is recognized as a liability at the time of issuance and are measured at nominal value.

Specific Matters for Comment – Chapter 3-1
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:

- Statement of financial performance; or
- 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.

Comment(s):

- *Could you please provide concrete examples of some monetary authorities that do not face legal or non-legally binding obligation? We have never obtained references from other monetary authorities, with regard to issuance of currency, that showed the existence of legally or non-legally binding obligation. Therefore, in our opinion, the only option for issuance of currency is the recognition as liability.*
- *We don't answer the question because we have some opinions about statement of financial performance and statement of net assets/equity that may affect the answer to the question:*
  - *Income statement or statement of financial performance is less appropriate in the context of central bank. The main objective of central banks is not to make profit or financial performance, but achieving currency stability. Revenue optimization cannot be fully achieved by central banks because securities owned by the central banks are policy instruments. Cost efficiency can be sacrificed for the implementation of currency stabilization policy. The use of statement of income and expense as a measure of financial performance may pose a conflict for the central banks' management in achieving their policy objectives. In our opinion, statement of income and expense reflects the financial impacts of policies implemented, rather than becomes a measure of financial performance (therefore we named it as statement of surplus deficit). Income and expenses presented in the statements of surplus deficit reflect the goals that have been achieved from the related revenue/expenditure.*
  - *The presence of statements of (changes in) net assets/equity is one manifestation of proprietary theory or residual interest theory approach, where there are certain parties that become the main focus and the owners of the entity. We think the approach is less relevant in the context of central banks, because all parts of the liabilities of the central bank should receive equal attention. Entity theory approach is more*

appropriate for central banks. The liabilities side does not reflect claims on the assets of central banks, but together with assets describe central banks' policy instruments which purpose has not been achieved or benefits are still exist in the future.

Preliminary View – Chapter 4

The key 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?

Comment(s):

a. We do not agree with the definition of monetary gold proposed by IPSASB in CP. The definition does not yet include contractual right to acquire gold. In substance, the contractual rights that will be completed by the delivery of gold are equal to the gold itself, thus should be included in the definition of monetary gold. Another paragraph, ie 4:12, also recognizes the contractual right to acquire gold as monetary gold. Therefore it is necessary to improve the definition of monetary gold so as to include both tangible gold or contractual right to acquire tangible gold.
b. We agree with the definition of tangible gold proposed by IPSASB in CP. The definition is in conformity with the provisions of the IMF's reserve assets, which is referred by central banks in general.

Specific Matters for Comment – Chapter 4-1

a. 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.

Comment(s):

- *In practice, can intention 1 and 2 be separated unequivocally? In our understanding based on the practice in Bank Indonesia, intention 1 and 2 cannot be separated. Holdings of gold as reserves are intended simultaneously to both intentions, which are enhancing financial capacity as well as increasing public trust in BI's ability to perform its duties as a central bank.*
- *Related to intention 2, features that prohibit or limit the ability of monetary authorities to sell gold cause the gold holdings with intention 2 no longer meet the definition of reserve assets as reserve assets should be ready to be converted at any time. The fact that gold is rarely used as an instrument of monetary policy (rarely traded by central banks) occurred solely because of practical considerations, rather than intention differences.*
- *Based on the above two points, the question is irrelevant, because there should be only one intention of gold holdings, that is as reserves. Therefore, the measurement is also only one, no choices.*

Specific Matters for Comment – Chapter 4-2

a. Please describe under what circumstances it would be appropriate to measure monetary gold assets at either:
   - Market value; or
   - 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).

Comment(s):

- *Similar to our comment on the specific matters for comment 4-1, there should be only one measurement for gold as reserve asset that is fair value. Fair value measurement is the most appropriate measurement to the nature and characteristic of reserve assets, which is ready to be released/sold at any time (reflecting financial capacity).*
- *Acquisition price measurement is appropriate only if the gold is owned by central banks for collection only and is not part of reserve assets.*

Preliminary View – Chapter 5-1

The 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?

Comment(s):

- *As mentioned in our letter, we believe that IPSASB does not have to regulate the accounting treatment of IMF special drawing rights because: (a) IMF has set it up specifically and applicable in all central banks that are members of IMF; and (b) the value is immaterial relative to the total assets of the central banks. Regulations by IPSASB will demand a revision by IPSASB on the ratified standard if it turns out that IMF change its policy.*
- *If IPSASB keeps the related standard, we agree with the three definitions proposed in CP.*

Preliminary View – Chapter 5-2

The IPSASBs view is that:

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.

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

Comment(s):

- *As mentioned in our letter, we believe that IPSASB does not have to regulate the accounting treatment of IMF special drawing rights because: (a) IMF has set it up specifically and applicable in all central banks that are members of IMF; and (b) the value is immaterial relative to the total assets of the central banks. Regulations by IPSASB will demand a revision by IPSASB on the ratified standard if it turns out that IMF change its policy.*
- *If IPSASB keeps the related standard:*
    - *We agree with IPSASB that recognizes IMF Quota Subscription as an asset that is measured at historical cost because it matches the value delivered to IMF by central banks as if savings account. We also agree with the choices of subsequent measurement: historical cost or net selling price depends on whether there are changes in the value or not.*
    - *We agree with IPSASB that recognizes SDR holdings as an asset and SDR allocation as a liability and measured at market value because it is a reserve asset and active market exists.*

Attachment 2

Comments on the whole paragraphs in the Consultation Paper: Public Sector Specific Financial Instrument

Par	Content	Comment
2	**Chapter 2: General Definitions**	
2.1	The proposed definitions in this chapter apply to more than one topic or transaction considered in the CP, and therefore have been included as a separate chapter. As noted in paragraph 1.8, this CP deals with topics and transactions which apply to central banks and central governments. Such entities are referred to as monetary authorities in this CP.	No comment.
2.2	The definitions in this chapter have been developed with consideration of the requirements of Government Finance Statistics. Appendix A: Government Finance Statistics, includes information on the main guidance considered from the applicable manuals. Based on that guidance, the proposed definitions below have been developed by the IPSASB.	No comment.
2.3	The proposed definition of ***monetary authority*** is as follows: "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."	The definition is commonly used in the central banks practice.

Par	Content	Comment
2.4	Monetary authorities have a broad mandate to oversee various aspects of the economy, such as the issuance and maintenance of currency, management of reserve assets, and operation and administration of exchange rate stabilization funds. In limited circumstances a monetary authority may be (or include) a regional entity, e.g. the European Central Bank.	No comment.
2.5	The proposed definition of ***reserve assets*** is as follows: “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.”	That definition has been referred to IMF’s definition of reserve assets, which becomes the reference for central banks in the world.
2.6	External assets are those that have a foreign (nonresident) counterparty, when they have one. Because tangible gold is a physical asset, it does not have a counterparty.	The definition of external assets in paragraph 2.6 needs to be refined and can be combined with paragraph 2.7. "External assets are those that have a foreign (nonresident) counterparty like .... External assets can also be a physical asset that does not have counterparty like ... "
2.7	Reserve assets comprise monetary gold, foreign currency, highly liquid investments, and Special Drawing Rights (SDRs).	See comment on paragraph 2.6

Par	Content	Comment
2.8	To be effective, reserve assets must be readily available for trading.	No comment.
2.9	The reserve asset definition is a common and well understood concept for monetary authorities from a GFS reporting perspective. Therefore it is important to align the accounting definition with GFS to avoid unintended departures.	No comment.
	Preliminary View – Chapter 2 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?**	• We agree with the definition of monetary authority proposed in the Consultation Paper (CP). That definition is commonly used in the central banks practice. • We agree with the definition of reserve assets proposed in the CP. That definition has been referred to IMF's definition of reserve assets, which becomes the reference for central banks in the world.
3	**Chapter 3: Currency in Circulation**	

Par	Content	Comment
3.1	The objective of this chapter is to discuss the IPSASB's proposal that: An entity shall account for currency in circulation in a manner that helps users of its financial statements assess: The impact of currency in circulation on the entity's financial performance and financial position; The nature and extent of risks arising from issuing currency in circulation, and how the entity manages those risks; and The types of currency in circulation issued by the entity.	• Related to the first point, what report reflects the financial performance of central banks? Is the answer income statement? In our opinion, there are limitations in the implementation of concept of income statement as a report of financial performance in the context of central banks. The objectives of central banks limit their income optimization and cost efficiency. The central banks' largest income source is income from securities, however such securities are policy instrument/tool, thus ownership and/or disposal consideration is not based on income optimization, but rather the policy implementation. The highest cost of central banks is the intervention cost of monetary policy and the efficiency of such intervention cost is difficult to measure. Therefore, income statement of central banks (or we call it statement of surplus deficit of central banks) better reflects the financial impact of the implementation activities of central banks' policy which objectives have been achieved. Concerning the currency in circulation, all income and expenses from the activity of currency circulation that has achieved its purpose will be presented in the income statement (or statement of surplus deficit), while income and expenses from the activity of currency circulation that has not achieved its purpose will be presented in the statement of financial position. • Related to the second point, what risks are arising from the issuance of currency in circulation? In addition, the description in CP below does not discuss further any matters related to the risk of issuance of currency in circulation. • Related to the third point, why does the type of currency in circulation become a matter that need to be disclosed in financial reporting?

Par	Content	Comment
3.2	Currency in circulation comprises notes and coins. Although laws vary between jurisdictions, monetary authorities generally are responsible for maintaining currency in circulation.	No comment.
3.3	This chapter of the CP considers the approaches to, and issues arising in, accounting for currency in circulation. The approaches identified relate to the type of currency, the stage in the production and issuance process, as well as any obligations arising from issuing currency in circulation. The objective is to initiate a debate about matters such as: a. The different types of currency in circulation; b. The accounting approaches for recognition and measurement of liabilities related to currency in circulation in order to provide the best information to users; and c. The recognition of revenue for currency issued into circulation.	No comment.
	Definition	
3.4	This section of the CP proposes a definition and guidance on the types of currency that may be included in any future guidance on accounting for currency in circulation. Appendix A: Government Finance Statistics, includes information on the main guidance considered from the applicable manuals in developing this	No comment.

Par	Content	Comment
	chapter. Based on that guidance, the IPSASB proposes the following definition of currency in circulation.	
3.5	The proposed definition of ***Currency in Circulation*** is as follows: “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.”	• We do not agree with the definition of Currency in Circulation proposed in CP. The definition more closely reflects the currency that may be still under control or are already back under the control of monetary authorities. Currency in circulation should reflect the currency that has been circulated in the community/is not under the control of monetary authorities. We propose that the definition emphasizes that the currency in circulation covers only currency that has been circulated in the community/is not under the control of monetary authorities. • In addition, we have a question regarding the practice of printing and issuance of currency in Indonesia. Currently, Rupiah is jointly signed by the Government and Bank Indonesia (which is independent from the Government), although the recognition of currency in circulation is still conducted by Bank Indonesia. Does this condition still meet the definition of currency in circulation as proposed in CP?
3.6	Physical notes and coins issued as legal tender are a medium of payment, recognized by a legal system as a valid form of payment.	No comment.

Par	Content	Comment
3.7	Currency in circulation is issued by the monetary authority for the economy to which it belongs; such currency is referred to as domestic currency. Domestic currency is distinguished from foreign currency. Domestic currency is that which is legal tender in the economy and issued by the monetary authority (or third party) for that economy (the domestic monetary authority). Adoption of a foreign currency—that is, currency issued by a monetary authority outside of the domestic economy (a foreign monetary authority)—for use as legal tender in the domestic economy does not give rise to currency liabilities for the domestic monetary authority. In some cases, the domestic monetary authority issues domestic currency along side the adopted foreign currency. Only the domestic currency gives rise to a liability for the domestic monetary authority.	No comment.
3.8	For example, some countries other than the United States of America (US), use the US dollar as legal tender. The adoption of the US dollar by a country other than the US is called dollarization. Dollarization is when a country officially or unofficially uses a foreign country's currency as legal tender for conducting transactions. Usually a country will do so because of the greater stability in the value of the foreign currency over the domestic currency. Use of a foreign currency in this manner does not give rise to a liability for the domestic monetary authority.	No comment.

Par	Content	Comment
3.9	Currency unions consist of more than one economy and have a regional central decision-making body with the authority to conduct a single monetary policy and issue the legal tender of the area, which is considered domestic currency for all the countries of the union. Such arrangements meet the definition of currency in circulation.	No comment.
3.10	A monetary authority may directly produce and issue currency, or it may use a third party to produce and/or issue currency.	No comment.
	Preliminary View – Chapter 3-1 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?**	• We do not agree with the definition of Currency in Circulation proposed in CP. The definition more closely reflects the currency that may be still under control or are already back under the control of monetary authorities. Currency in circulation should reflect the currency that has been circulated in the community/is not under the control of monetary authorities. We propose that the definition emphasizes that the currency in circulation covers only currency that has been circulated in the community/is not under the control of monetary authorities. • In addition, we have a question regarding the practice of printing and issuance of currency in Indonesia. Currently, Rupiah is jointly signed by the Government and Bank Indonesia (which is independent from the Government), although the recognition of currency in circulation is still conducted by Bank Indonesia. Does this condition still meet the definition of currency in circulation as proposed in CP?

Par	Content	Comment
	Accounting for Currency	
	Nature of Currency	
3.11	Physical currency issued by the monetary authority comprises notes and coins. It is important to consider whether notes and coins have a different function or purpose, which may justify different accounting treatments. All physical currencies are now fiat currencies and derive their value based on their acceptance as a medium of exchange.	No comment.
3.12	Notes and coins have different physical characteristics which may affect how long they last and their residual value if damaged. Because they are made of metals, coins often last longer and have some residual value compared to notes made from paper or plastic. However, notes and coins are used in the same manner for payments, as both are accepted as consideration equal to their face value in exchange for purchases. Thus the purpose and function are the same for notes and coins.	No comment.
	Currency Inventory	
3.13	Currency inventory comprises the cost of purchase of raw materials and related production costs including labor and overhead costs or the cost of purchasing notes and coins produced by a third party. This CP takes the view that transactions related to the purchase and production of currency should be treated in	For central banks, currency is not a commodity that is tradable. In general, central banks do not produce the currency for the purpose of selling it, because the central banks' business is not buying and selling currency. Issuance and/or withdrawal of currency is not intended to sell and buy the currency. The main

Par	Content	Comment
	accordance with IPSAS 12, Inventories, and recognized accordingly. Under GFS, notes and coins in circulation are treated as liabilities at full face value of the issuer. The cost of producing the physical notes and coins is recorded as government expenditure and not netted against the receipts from issuing the currency.	business processes in the context of currency issuance and circulation is ensuring the availability and value of currency in the economy. Furthermore, every issuance and circulation of currency reflects a promise/commitment of the central banks on the value stated in the currency. The addition or reduction of currency in circulation is followed by an increase or decrease in other liabilities components and reflects the exchange transaction (as it is done at the same nominal value). Therefore, it is less appropriate if the accounting for currency before issuance is equilized to accounting for inventory in general. The conversion process currency raw material into the currency ready to be issued and circulated is not a process of making currency inventory to be sold, but rather the preparation process of central banks' policy instrument to guarantee the availability of currency in the economy. "Service" provided by central banks is a guarantee on the value of currency in circulation, while the raw material of currency and the conversion process are central banks' supplies in providing the "service". Moreover, we also believe that IPSASB should not specifically regulate the accounting treatment of currency raw materials inventory and conversion process, because the substance of the process is not different from activity in other entities, and the value is relatively immaterial compared to total assets of the central banks. IPSASB should focus on the accounting treatment when currency is circulated because this activity only occurs in central banks.

Par	Content	Comment
3.14	Where production costs exceed the face value, the inventory value of currency recognized should be equal to the face value of the currency. (See Appendix B & C, for examples of the transaction and journal entries related to the purchase of materials, production and distribution of currency, as well as adjustments for net realizable value of coins when cost exceeds face value).	Similar to the above comment, lower of net realizable value or cost measurement will be relevant only when currency is considered as tradable inventory.
	Issuance of Currency	
3.15	This section of the CP considers the different approaches for accounting for the issuance of currency. The approaches consider the guidance of the Conceptual Framework and are described below, with Approach 1: Liability starting from paragraph 3.18 and Approach 2: Revenue starting from paragraph 3.34. Appendix D summarizes the decision points in determining the appropriate accounting treatment when currency is issued.	No comment.
3.16	The amount of currency in circulation is driven by consumer demand for physical currency, and fluctuates during the year. For example, the demand may be higher during holidays and lower at other times. Typically, banks or other depository institutions maintain reserve accounts at the monetary authority. Currency in circulation increases when a bank or other depository institution requests and receives currency from the monetary authority in exchange for a reduction to its reserve account. Similarly,	No comment.

Par	Content	Comment
	currency in circulation decreases when the bank or other depository institution returns currency to the monetary authority as a deposit to their reserve account. Exchanges of currency between the monetary authority and a bank or other depository institution, such as to replace damaged currency or exchange currency for different denominations, have no net effect on currency in circulation.	
3.17	The monetary base of an economy's currency is the sum of the amount of physical currency in circulation and the reserve deposit balances banks and depository institutions hold with the monetary authority. The size of the monetary base is managed through monetary policy operations of the monetary authority and has a direct effect on interest and exchange rates denominated in that currency.	No comment.
	Approach 1: Liability	
3.18	This approach considers the Conceptual Framework guidance related to the recognition of a liability. Chapter Five of the Conceptual Framework includes the following: **Definition** A liability is:	No comment.

Par	Content	Comment
	A present obligation of the entity for an outflow of resources that results from a past event. **A Present Obligation** Public sector entities can have a number of obligations. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.	
	Is there a liability—Factors to be Considered	
3.19	The key factors which determine recognition of a liability by an entity when currency is issued are discussed below.	No comment.
	Has a past event occurred?	
3.20	The past event occurs when currency is issued into circulation by the entity. This is the most straight forward factor when examining if a liability should be recognized.	We agree that past event is when currency is issued into circulation because at that time the currency is no longer under the control of monetary authority and starts incurring liability to the monetary authority.
	Does issuance of currency give rise to a present obligation?	
3.21	For legal obligations, a present obligation arises when legislation exists that sets out legal or similar requirements and responsibilities for monetary authorities in relation to currency in	We agree that generally there is a legal obligation for monetary authority concerning currency in circulation as explained in paragraph 3.21.

Par	Content	Comment
	circulation. Such legislation can vary. However, such laws may include one or more of the following requirements or responsibilities of monetary authorities: a. Exchange damaged currency for new currency; b. Hold collateral for the amount of currency in circulation; and *c.* Establish explicit claims against the assets of the monetary authority for the currency in circulation. Such laws may also include requirements and responsibilities to manage the amount of currency in an economy and carry out monetary policy with the objective of stable inflation and exchange rates.	
3.22	The key consideration is that the obligation must be legally enforceable. The Conceptual Framework notes that enforceable obligations may arise from a variety of legal constructs and that exchange transactions are usually contractual in nature and therefore enforceable by law or an equivalent authority or arrangement. Issuance of currency is an exchange transaction because consideration is received equal to the cumulative face value of the currency issued.	No comment.
3.23	When laws and regulations exist and set out the requirements and responsibilities of monetary authorities, a legal obligation is present and therefore it is appropriate to consider if a legal liability should be recognized.	No comment.

Par	Content	Comment
3.24	The absence of currency laws and regulations that establish responsibilities and requirements for monetary authorities indicates that an entity does not have a present legal obligation. The entity therefore considers if a non-legally binding obligation may be present. In order for a non-legally binding obligation to give rise to a liability there must be: a. An indication to others that the entity will accept certain responsibilities; b. The creation of a valid expectation; as well as c. Little or no realistic alternative to avoid an outflow of resources.	• Are there any monetary authority whose Act does not regulate its obligations related to the currency in circulation? Please give examples! • We agree with the requirements of non-legally binding obligation because it complies with the requirements of constructive obligation that resulted in the recognition of provisions. However, please give examples of countries whose monetary authority face such non-legally binding obligation!
3.25	The three factors should not be considered in isolation. They are inter-related. An entity must give a sufficiently precise indication to others that the entity will accept the responsibilities in relation to currency. This indication creates a valid expectation that the entity will discharge those responsibilities. The result of creating that valid expectation is that the entity has little or no realistic alternative to avoid an outflow of resources.	No comment.
	Indication to others that the entity will accept certain responsibilities	

Par	Content	Comment
3.26	The Conceptual Framework considers what actions might indicate to others that an entity will accept certain responsibilities. It gives the examples of past practice, published policies and sufficiently specific current statements, whilst noting that announcements made in the early stages of implementing a policy are unlikely to give rise to non-legally binding obligations. In the case of currency in circulation, it is likely to be past practice (for example, redeeming damaged currency) that indicates a willingness to accept certain responsibilities.	We agree with the requirements of non-legally binding obligation because it complies with the requirements of constructive obligation that resulted in the recognition of provisions. However, please give examples of countries whose monetary authority face such non-legally binding obligation!
	Creation of a valid expectation	
3.27	For a valid expectation to be created, announcements that an entity will accept certain responsibilities need to be sufficiently precise and certain. Policies included in legislation are more likely to create a valid expectation.	We agree with the requirements of non-legally binding obligation because it complies with the requirements of constructive obligation that resulted in the recognition of provisions. However, please give examples of countries whose monetary authority face such non-legally binding obligation!
	Does the entity have little or no realistic alternative to avoid an outflow of resources?	
3.28	For a legal obligation, there is likely to be an outflow of resources required to discharge those obligations when a past event (issuance of currency) gives rise to a present obligation. Therefore, in the case of a legal obligation, the Conceptual Framework definition of a liability appears to be satisfied.	No comment.

Par	Content	Comment
3.29	Interpreting this requirement in the context of non-legally binding obligations is difficult. However, the IPSASB is of the view that, when the entity has a past practice of redeeming currency when presented by holders in the absence of a legal obligation to do so, this establishes that the entity has little or no realistic alternative to avoid an outflow of resources.	No comment.
	Conclusion on Recognition	
3.30	The IPSASB's view is that the issuance of currency satisfies the definition of a liability in the Conceptual Framework and recognition criteria, when a present obligation exists as described in either paragraphs 3.23 or 3.24. If the monetary authority assess that a present obligation does not exist, because of the absence of a legal or a non-legally binding obligation, it should then assess whether it is appropriate to recognize revenue in accordance with approach 2 described starting from paragraph 3.34.	We agree that currency in circulation is recognized as liability because when currency is circulated to the public, monetary authority has current obligation on public's claim as much as the currency's nominal value.
	Preliminary View – Chapter 3-2 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 (as noted in paragraph 3.12), the IPSASB's view is the accounting treatment should be	We agree with IPSASB's view stated in CP that the accounting treatment for notes and coins should be consistent, and liability is recognized upon issuance. The difference in types/money materials does not affect the transaction substance of issuance of both currency types. At the time of issuance, notes and coins have claims at nominal value, not intrinsic value. Liability incurred by the circulation of both currency types is also equal to the nominal value. Thus the recognition of both should be

Par	Content	Comment
	consistent for both, with the recognition of a liability when issued. **Do you agree with the IPSASB's Preliminary View – Chapter 3-2?**	equal, which is recognized as a liability at the time of issuance and are measured at nominal value.
	Measurement of the liability	
3.31	This section considers the measurement of any liability recognized using Approach 1. Chapter 7 of the Conceptual Framework discusses a number of measurement bases for liabilities and provides guidance for selecting an appropriate measurement basis by considering the nature of the liability and settlement options available.	No comment.
3.32	The IPSASB believes that the following measurement bases from the Conceptual Framework may be appropriate: Historical Cost, Cost of Fulfillment, and Market Value as explained below:	No comment.
	a. Historical Cost is defined as: The consideration received to assume an obligation, which is the cash or cash equivalents or the value of other consideration received, at the time the liability is incurred. The liability is incurred when currency is issued. The monetary authority receives consideration equal to the face value of the currency issued. Therefore, if historical cost is the basis used, measurement is appropriate at the cumulative face value of the currency issued.	We agree with the historical cost measurement, that is the liability of currency in circulation is measured at historical value = nominal value because public's claim on the money that they own is as much as nominal value.

Par	Content	Comment
	b. Cost of Fulfillment is defined as: The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming it does so in the least costly manner. When measurement on this basis is dependent on uncertain future events, which might be the case in the context of currency in circulation, then all possible outcomes should be taken into account. However, the least costly manner to fulfill the obligation would likely be based on the cost of producing the expected amount of future currency needed, and not the cumulative face value of all currency issued. This indicates that measurement using cost of fulfillment is limited to the expected cost of producing currency.	We do not agree with the cost of fulfillment measurement because: • Although there is uncertainty about the amount to be claimed or redeemed in the future, but the value of the claim remains the same with nominal value • The cost of fulfillment measurement will lead to the recognition of liabilities of currency in circulation with a value that is different to the value of public's claims on it, which is its nominal value.
	c. Market Value is defined as: The amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction. This may also be appropriate, as the cumulative face value of currency issued, is redeemed for an equal amount of currency, or other consideration.	We agree with the historical cost measurement, that is the liability of currency in circulation is measured at historical value = nominal value because public's claim on the money that they own is as much as nominal value.
3.33	The nature of the obligation which gives rise to the liability (legal vs. non-legally binding), may impact which measurement bases are appropriate.	No comment.
	a. A present legal obligation, arising from a contract or similar arrangement appears appropriate to be measured at historical cost or market value. The legal nature of the liability indicates that settlement is expected at the amount legally enforceable by law. Regardless of whether historical cost or market value are more appropriate, the actual amount of the	We agree because the value of public's claim is as much as nominal value.

Par	Content	Comment
	liability is equal. Measurement at either historical cost or market value gives rise to liabilities equal to the cumulative face value of currency issued by the monetary authority.	
	b. Non-legally binding obligations arising because of past practices and an expectation of an outflow of resources may be more appropriately measured using the cost of fulfillment. This is because the future settlement of currency in circulation is uncertain in both time (when it will be redeemed) and amount (how much currency will be redeemed). Considering the nature of this type of non-legally binding obligation, cost of fulfillment would seem appropriate. It could be argued that a legal obligation related to currency in circulation, also has the same uncertainty in terms of timing and amount of currency to be redeemed. However, the key difference is the contractual nature of currency in this case means that the obligations are enforceable by law.	We do not agree because even though it is non-legally binding obligation, public still have claims, in substance, as much as nominal value. The measurement using cost of fulfillment will also give rise to the difference of liability recognized by monetary authority and claims from currency holder.
	Approach 2: Revenue	
3.34	If the monetary authority assess that a present obligation does not exist, because of the absence of a legal or a non-legally binding obligation, it should then assess whether it is appropriate to recognize revenue in accordance with approach 2.	Is there any monetary authority that does not meet legally binding and non-legally binding criteria? Please provide the examples!
3.35	This approach considers the Conceptual Framework guidance related to the recognition of revenue.	No comment.

Par	Content	Comment
	Definitions relating to Revenue and Ownership Contributions	
3.36	Chapter Five of the Conceptual Framework includes the following:	No comment.
	Definition	
5.29	Revenue is: *Increases in the net financial position of the entity, other than increases arising from ownership contributions.*	Who is the owner in the context of an independent central bank? Most central banks are independent, although there is investment from the government but the government is not the owner of the central bank as a relationship of ownership can conflict with the central bank's independence.
5.31	Revenue and expense arise from exchange and non-exchange transactions, other events such as unrealized increases and decreases in the value of assets and liabilities, and the consumption of assets through depreciation and erosion of service potential and ability to generate economic benefits through impairments. Revenue and expense may arise from individual transactions or groups of transactions.	Explanation in paragraph 5.31 shows that IPSASB's regulations put the recognition of central banks' revenue and expense at the same place with those of other entities. It is necessary to assess the suitability of some underlying concept of revenues/expenses recognition and the uniqueness of central banks' transaction. For example, is the concept of opportunity gain/loss that underlies the recognition of unrealized income/loss in income statement relevant to the context of central banks whose primary objectives are not in the form of financial performance as other entities in general?
5.33	Ownership contributions are: *Inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.*	Who is the owner in the context of an independent central bank? Most central banks are independent, although there is investment from the government but the government is not the owner of the central bank as a relationship of ownership can conflict with the central bank's independence.

Par	Content	Comment
3.37	Issuance of currency by monetary authorities is an exchange transaction that results in inflows from external parties to the monetary authorities and an increase in net financial position. Therefore, according to the guidance of the Conceptual Framework, issuance of currency would qualify as revenue, as long as that issuance is not considered an ownership contribution. However, it is unlikely that those external parties are acting in an ownership capacity or establishing an interest in the net financial position of the entity. When an external party acquires currency, it obtains a fixed amount of currency for a fixed amount of consideration. The external party does not acquire an interest in the net financial position of the monetary authority.	If revenue is recognized at initial recognition, what will be the journal for exchange and/or withdrawal of currency after initial recognition? Under general accounting concept, revenue cannot be recognized from exchange of similar goods/services.
3.38	Therefore, if Approach 1 does not result in the recognition of a liability, then the issuance of currency should be recognized in the financial statements as revenue because the definition of revenue is satisfied.	It must be ascertained first whether this alternative is possible by answering question 3.34.
3.39	Requirements for presentation are generally not considered in this CP as noted in paragraph 1.16. However, under the revenue approach a possibility exists to recognize revenue in the statement of financial performance or directly in the statement of net assets/equity. The Conceptual Framework leaves open the possibility that revenue could be directly recognized in the statement of net assets/equity at the standards level. This might	If there are circumstances indicating the absence of legally binding obligation and non-legally binding obligation that the issuance of currency in circulation is recognized as revenue, the revenue is presented on statement of surplus/deficit (see response to the specific matters for comment - chapter 3.1) if and only if the revenue reflects the impact of central banks' policy implementation that has achieved its objectives in the

Par	Content	Comment
	be the case, for example, if it was determined that the revenue is not attributable to the period covered by the financial statements. In some instances unrealized gains or losses resulting from revaluations of financial instruments are recognized in the statement of net assets/equity, but when such items are realized (or when they are considered impaired) they are recognized in the statement of financial performance. Although the IPSASB acknowledges the possibility that revenue may be recognized in the statement of net assets/equity, current IPSAS standards do not include examples where the full amount of revenue is presented in the statement of net assets/equity. Therefore, the IPSASB has included SMC 3-1 to obtain constituents views.	current period. Revenue is presented as part of liabilities on the statement of financial position of the central banks if the implementation of policies related to the revenue has not achieved its objectives in the current period (see response to the specific matters for comment - chapter 3.1).
3.40	The IPSASB's discussion is based on the Conceptual Framework guidance and its views on the transactions related to the currency in circulation. However, some respondents may have alternative views as described in paragraphs 3.41 and 3.42.	No comment.
3.41	Those who do not support recognition of a liability when currency is issued into circulation argue that:	
	a. There is not a present obligation. When the monetary authority provides or receives currency, it is offset by an equal reduction or increase in the depository institution's reserve account and the liability for deposits at the monetary authority, respectively. Such treatment is similar to an	We do not agree because unlike the context of bank customer deposits, at a time banks withdraw funds from a monetary authority, the monetary authority's liabilities to banks decreased but the other liabilities arising out of monetary authority to the currency owners because the currency owners have claims at

Par	Content	Comment
	individual withdrawing or depositing cash in a bank, whereby the individuals account in the bank and the bank's deposit liability is reduced or increased, respectively, and there is no obligation beyond the liability for deposits. The monetary authority provides or receives currency when a depository institution initiates the transaction. Consequently, the monetary authority does not have a present obligation until the depository institution initiates a transaction.	nominal value to the monetary authority. Initiation undertaken by banks can also be triggered by the policy pursued by the monetary authorities as they carry out the absorption or expansion policy of currency in circulation.
	b. The monetary authority provides currency in exchange for an equal amount of currency; however, such a transaction does not result in a net outflow from the monetary authority.	We do not agree, because the recognition of liability does not require net outflow, but rather the outflow of resources embodying economic benefits. In the context of currency circulation, monetary authority will deliver currency as much as the claim of public on the currency that is at nominal value.
	c. The increase in the value of the currency from cost of production to face value when currency is put into circulation does not represent a new obligation. Once currency is issued, the cost of any replacement, such as for worn currency, is the cost of production.	We do not agree. Liability recognition is not based on the difference between nominal value and production cost. Production cost is recognized as expense while liability is measured at nominal value.
	d. The increase in the value of the currency from the cost of production should be recognized as revenue and possibly presented directly in net assets/equity, as described in paragraphs 3.37 and 3.39.	We do not agree because central banks do not conduct currency trading transaction, thus there is no relationship between production cost and currency value.
3.42	Those who support recognition of revenue directly in the statement of net assets/equity argue that the issuance of currency in circulation does not represent a liability and should not affect the operating results of the entity, and instead should be presented directly in net assets/equity.	It must be ascertained first whether this alternative is possible by answering question 3.34.

Par	Content	Comment
	Conclusion on Recognition	
3.43	The IPSASB's view is that when the issuance of currency does not satisfy the definition of a liability in the Conceptual Framework and recognition criteria, it should be recognized as revenue.	It must be ascertained first whether the revenue alternative is possible by answering question 3.34.
	Specific Matters for Comment – Chapter 3-1 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.	• Could you please provide concrete examples of some monetary authorities that do not face legal or non-legal binding obligation? • We don't answer the question because we have some opinions about statement of financial performance and statement of net assets/equity that may affect the answer to the question: ○ Income statement or statement of financial performance is less appropriate in the context of central bank. The main objective of central banks is not to make profit or financial performance, but achieving currency stability. Revenue optimization cannot be fully achieved by central banks because securities owned by the central banks are policy instruments. Cost efficiency can be sacrificed for the implementation of currency stabilization policy. The use of statement of income and expense as a measure of financial performance may pose a conflict for the central banks' management in achieving their policy objectives. In our opinion, statement of income and expense reflects the financial impacts of policies implemented, rather than

Par	Content	Comment
		becomes a measure of financial performance (therefore we named it as statement of surplus deficit). Income and expenses presented in the statements of surplus deficit reflect the goals that have been achieved from the related revenue/expenditure. ○ The presence of statements of (changes in) net assets/equity is one manifestation of proprietary theory or residual interest theory approach, where there are certain parties that become the main focus and the owners of the entity. We think the approach is less relevant in the context of central banks, because all parts of the liabilities of the central bank should receive equal attention. Entity theory approach is more appropriate for central banks. The liabilities side does not reflect claims on the assets of central banks, but together with assets describe central banks' policy instruments, which purpose has not been achieved or benefits are still exist in the future. ○ We have never obtained references from other monetary authorities, with regard to issuance of currency, that showed the existence of legally or non-legally binding obligation. Therefore, in our opinion, the only option for issuance of currency is the recognition as liability.
	Measurement	
3.44	The IPSASB's view is that it is appropriate to measure revenue at the cumulative face value of currency issued, which is equal to the amount of consideration received.	It must be ascertained first whether the revenue alternative is possible by answering question 3.34.

Par	Content	Comment
	Consistency with Current IPSASs	
3.45	Based on preliminary view 3-2, Approach 1 (Liability) is consistent with current IPSASs. Recognizing a liability based on the requirements of legislation (legal obligation) for currency in circulation or a past practice of redeeming currency by the monetary authority (constructive obligation) is consistent with IPSAS 19, Provisions, Contingent Liabilities, and Contingent Assets, which requires that a provision shall be recognized when: (a) An entity has a present obligation (legal or constructive) as a result of a past event; (b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognized.	No comment.
3.46	Approach 1 is also consistent with IPSAS 28 Financial Instruments: Presentation, which defines a financial liability as a liability that is a contractual obligation to deliver cash or another financial asset to another entity. Because of laws and regulations which compel monetary authorities to redeem currency when presented by holders, such an obligation in the view of the IPSASB, has the characteristics of a financial liability. IPSAS 28.AG10 explicitly states that IPSAS 28 does not address currency issued as legal tender from the perspective of the issuer. However, currency does appear to qualify as a financial liability. IPSAS 29 Financial Instruments: Recognition and Measurement	No comment.

Par	Content	Comment
	sets out requirements for recognition and subsequent measurement for financial liabilities as follows:	
	a. Financial liabilities at amortized cost, are initially recognized and measured at fair value plus transaction costs, and subsequently measured at amortized cost; and	No comment.
	b. Financial liabilities classified as fair value through surplus or deficit are initially recognized at fair value with transaction costs expensed as incurred in the statement of financial performance with subsequent measurement at fair value.	No comment.
3.47	Accounting for currency at amortized cost, is inappropriate, as currency does not have maturity dates or interest payments. Therefore, accounting for currency liabilities at fair value through surplus or deficit is appropriate. This would result in measurement at face value.	No comment.
3.48	The IPSASB considered if currency liabilities are an equity instrument, rather than a financial liability. IPSAS 28 defines an equity instrument as any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Currency only gives the holder a claim to the face value of the currency held. It does not give any rights to any additional residual or variable interest in the monetary authority. Therefore, accounting for currency in circulation as an equity instrument is inappropriate. This is consistent with the analysis in approach 2, where it was determined that issuance of currency	No comment.

Par	Content	Comment
	does not give rise to ownership contributions (equity contribution).	
	Chapter 4: Monetary Gold	
	Chapter Objective	
4.1	The objective of this chapter is to discuss the IPSASB's proposal that:	No comment.
	An entity shall account for monetary gold in a manner that helps users of its financial statements assess: a. The types (different categories and characteristics) of monetary gold held by the entity; b. The impact of monetary gold on the entity's financial performance and financial position; and c. The nature and extent of risks arising from holding monetary gold, and how the entity manages those risks.	Point b indicates that IPSAS considers statement of surplus deficit or income statement of central banks as financial performance measurement. In our opinion, statement of surplus deficit or income statement of central banks reflects the financial impact of policy implementation that has achieved its objective in current period. There are no further explanations regarding point c in the next paragraphs.

Par	Content	Comment
	Introduction	
4.2	Physical gold has a long history as a reserve asset. Historically, currency was produced from precious metals (typically gold and silver). As economies advanced, paper money became more prevalent; however, it would typically be exchangeable for a precious metal. Gold played a more direct role in the monetary system until the early 1970s, when the US dollar was allowed to float freely. Although currencies are no longer linked to gold, central banks and governments continue to hold physical gold, because it has intrinsic value and there is a global liquid market for it.	No comment.
4.3	Monetary authorities hold gold as a reserve asset. The unique characteristics of gold make it an important reserve asset for such entities, for the following reasons: • Economic security—Gold does not deteriorate or decay. It has a high density, so small amounts have high value. It is physical and therefore is not a liability of another party (no counterparty risk); • Risk diversification—Gold is transacted in a large global market, but a unique market to those of other reserve assets (gold markets often move inversely to key global currency markets, such as the US dollar); • Confidence—Currency is no longer backed or exchangeable for gold. However, confidence in currency and monetary authorities often can be linked to gold holdings; and	No comment.

Par	Content	Comment
	• Asset available for unexpected liquidity needs—In periods of uncertainty, high inflation or large negative economic events, gold becomes a critical asset as it can be sold for foreign currency reserves, used directly for international payments or as collateral for borrowings	
4.4	Accounting for monetary gold is inconsistent by monetary authorities, with a range of measurement bases used. The CP considers the approaches to, and issues arising in, accounting for monetary gold. The objective is to initiate a debate about matters such as: a. The nature of different types of gold assets and how they are used by monetary authorities; and b. The appropriate way to measure monetary gold assets in order to provide the best information to users.	No comment.
4.5	To achieve this objective, it is important to identify the intentions for which monetary authorities hold monetary gold as reserve assets. The two main intentions identified are as follows: a. Intention 1: Monetary gold intended to be held for its contribution to financial capacity because of its ability to be sold, in the global liquid gold trading markets. Therefore, information on the current market value of gold is important; and b. Intention 2: Monetary gold intended to be held for an indeterminate period of time, because it provides confidence	Does monetary gold held for an undetermined time meet the definition of reserve asset? Point b states that there is a possibility of the prohibition or restriction on the sale of monetary gold. Whereas the definition of reserve asset states that: Reserve assets are those external assets held by monetary authorities <u>that are readily available</u> for balance of payments financing needs, intervention in the currency markets to affect

Par	Content	Comment
	in the monetary authority's financial strength and ability to carry out its activities. There may be prohibitions or restrictions placed on these monetary authorities which limit the ability to sell monetary gold assets. Therefore, when monetary gold is held with this intention, the quantity and the price paid to acquire it is important.	exchange rates and maintaining confidence in the currency and the economy
4.6	The CP identifies two approaches to accounting for monetary gold, both linked to the above intentions. In assessing these approaches, the IPSASB will consider how well they satisfy the qualitative characteristics (QCs) set out in the Conceptual Framework, the objectives of financial reporting and meeting users' information needs.	No comment.
	Definitions	
4.7	This section of the CP proposes a definition of monetary gold and whether certain transactions meet the definition of monetary gold. Appendix A: Government Finance Statistics, includes information on the main guidance considered from the applicable manuals in developing this chapter. Based on that guidance, the IPSASB proposes the definitions set out below. However, certain terms used in the statistical guidance, such as the reference to monetary gold being a financial asset have not been included in the proposed definitions, because monetary gold does not meet the IPSAS definition of a financial asset because of its physical nature.	No comment.

Par	Content	Comment
4.8	The proposed definition of **monetary gold** is as follows: "Tangible gold held by monetary authorities as reserve assets."	The definition of monetary gold does not yet include contractual right to acquire gold. In substance, the contractual rights that will be completed by the delivery of gold are equal to the gold itself, thus should be included in the definition of monetary gold. Another paragraph, i.e. 4:12, recognizes the contractual right to acquire gold as monetary gold.
4.9	The definition is restricted to those gold assets held by monetary authorities as reserve assets, as these are the assets available to monetary authorities in carrying out their mandates. Gold assets not held by monetary authorities or those held by monetary authorities but not as reserve assets, would not be considered to be held to assist in achieving the core mandate of monetary authorities and therefore are not within the definition.	No comment.
4.10	The proposed definition of **tangible gold** is as follows: "Physical gold that has a minimum purity of 995 parts per 1000."	No comment.
4.11	Gold which does not meet the minimum purity requirements of 995 parts per 1000 is not considered to be in saleable form, according to the internationally accepted rules for trading on markets and exchanges. In addition to meeting the minimum purity requirement of 995/1000, assets should also be in a form which facilitates a timely transaction, meaning a form of tangible gold which is quantifiable in a standard size and form.	No comment.

Par	Content	Comment
4.12	Contracts which permit settlement in physical gold may meet the definition of monetary gold, as discussed in paragraph 4.18 because, in some instances, monetary authorities hold these types of financial instruments with the intention of taking physical delivery of gold.	No comment.
4.13	Monetary gold is one particular type of reserve asset. It is held by monetary authorities for its intrinsic value as a precious metal and because a global liquid trading market exists. Monetary gold is similar to foreign exchange holdings, another key type of reserve asset. Therefore, monetary gold has an economic substance that differs from gold holdings held for other purposes such as use in operations, manufacturing or because such holdings have historical or cultural significance.	No comment.
4.14	The definition excludes other precious metals (silver or platinum). Unlike gold, non-gold precious metals are not considered a store of value, or as a medium for international payments, in the mannerthat gold is. Therefore, monetary authorities do not hold non-gold precious metals as reserve assets. The IPSASB noted that none of the monetary authority financial statements examined accounted for or disclosed any holdings of precious metals, other than gold.	No comment.

Par	Content	Comment
	Preliminary View – Chapter 4 The key definitions are as follows: c. Monetary gold is tangible gold held by monetary authorities as reserve assets d. 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?**	• We do not agree with the definition of monetary gold proposed by IPSASB in CP. The definition does not include contractual right to acquire gold. In substance, the contractual rights that will be completed by the delivery of gold are equal to the gold itself, thus should be included in the definition of monetary gold. Another paragraph, ie 4:12, also recognizes the contractual right to acquire gold as monetary gold. Therefore it is necessary to improve the definition of monetary gold so as to include both tangible gold or contractual right to acquire tangible gold. • We agree with the definition of tangible gold proposed by IPSASB in CP. The definition is in conformity with the provisions of the IMF's reserve assets, which is referred by central banks in general.
	Analysis of transactions which satisfy the definition of monetary gold	
4.15	Monetary gold guidance should only cover those items which satisfy the definitions set out above. The following types of gold assets should be included: • Gold held directly by monetary authorities or in allocated and unallocated gold accounts; • Commemorative and legal tender gold coins; and • Some financial instruments which allow for physical settlement in gold on demand and for which monetary authorities have the intention of taking physical delivery. These are discussed in the following paragraphs.	No comment.

Par	Content	Comment
4.16	Gold can be held directly by monetary authorities or with a third party in an allocated or unallocated gold account; as explained below: a. Gold held directly by monetary authorities, that satisfies the tangible gold definition and is held for use as a reserve asset; satisfies the definition of monetary gold; b. Gold held in an allocated account is gold—is that which is held for safekeeping with a third party. Gold assets in allocated accounts are specifically identified and segregated in the third party's storage facilities. Monetary authorities have the right to demand delivery of their specific gold assets, or to instruct the third party to undertake transactions on their behalf. The rights and obligations of owning the gold assets have not been transferred, as the third party is an agent providing safekeeping services. Therefore gold held in an allocated account, satisfies the definition of monetary gold; and c. Gold held in an unallocated account is gold which is deposited by the monetary authority with a third party (in a manner similar to how cash is deposited at a bank). Deposits of gold assets are not segregated or identified. Monetary authorities have the right to request delivery their deposits. Such gold deposits have different risks than those held directly by monetary authorities or in allocated accounts. However, such deposits are still denominated in gold and allow for the delivery of a specific quantity. Therefore gold held in an unallocated account, satisfies the definition of monetary gold	No comment.

Par	Content	Comment
4.17	Gold can be held as, either as commemorative gold coins or as legal tender gold coins, as described below: a. Commemorative gold coins derive their value based on the gold content or their numismatic value. Commemorative gold coins are not legal tender and are not considered to be currency in circulation. The value of commemorative gold coins may be greater than the intrinsic value of the gold. Therefore, monetary authorities may be less likely to hold these as reserve assets, because higher values could be achieved by selling these through the non-commodity markets. However, when monetary authorities hold commemorative gold coins as reserve assets, they meet the definition of monetary gold. Alternatively, when they are held because of their numismatic value or used for purposes other than as reserve assets, they do not satisfy the definition of monetary gold; and b. Gold coins may be legal tender in a particular jurisdiction–examples include the Canadian Maple Leaf and Chinese Panda gold coins. The legal tender face value is less than the value of the gold content in the coins. Such coins are legal tender and therefore currency in circulation. Some legal tender gold coins do not contain a high enough gold content to satisfy the requirements of the definition of monetary gold. However, those legal tender gold coins which satisfy the purity requirements	No comment.

Par	Content	Comment
	and are held as reserve assets, meet the definition of monetary gold.	
4.18	A range of investment products and securities linked and/or backed with gold exist. The main categories are discussed below: a. Gold loans are debt instruments where gold is used as collateral. These types of instruments are not monetary gold as they do not meet the monetary gold definition, because these are liabilities. Further, the fact that the loan is secured by gold, does not mean that it is available to use as reserve assets by monetary authorities and therefore does not satisfy the definition of monetary gold; b. Gold exchange traded funds (ETFs) are securities (investment instruments) traded on public markets which are linked to an underlying amount of gold, to the market price of gold, or which hold underlying securities of entities that produce gold. Gold ETFs are financial instruments, as they result from a contract, which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The majority of these types of instruments should be accounted for as financial instruments using IPSAS 28–30. However, instruments which allow settlement in gold on demand, held by the monetary authority as reserve assets with the intention of taking delivery of gold, would satisfy the definition of monetary gold; c. Gold forward/futures are contracts for the exchange of a quantity of gold at a future date at a specified price. These are financial instruments as they result from a contract, which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In	No comment.

Par	Content	Comment
	some instances, monetary authorities may hold such instruments with the intention of taking physical delivery of gold. When these instruments allow for settlement on demand and the monetary authority has the intention of taking delivery of gold, these would satisfy the monetary gold definition; and d. Gold equities are common and preferred shares of companies which generate revenue through the exploration, development and mining of gold. These are financial instruments as they result from a contract, which gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The value of such gold equities is related to the market price of the shares, influenced by the performance of the combined operations of the entity, and are not an investment in an underlying amount of gold (or that may permit settlement in gold). Therefore, gold equities do not satisfy the definition of monetary gold and are financial instruments within the scope of IPSAS 28–30.	
4.19	Gold antiques are cultural and historical items which contain gold. These items have value arising from their gold content, as well as their historical and/or cultural value. Gold antiques are likely to be held by government entities because of their cultural and/or historical significance and are unlikely to be held as reserve assets. Even if such items are held by monetary authorities and the gold items meet the purity requirements, it is unlikely they would be in saleable form and therefore would not satisfy the definition requirements.	No comment.

Par	Content	Comment
	Accounting Considerations	
	Key Guidance from the Conceptual Framework	
4.20	This CP considers the guidance of the Conceptual Framework as applied to monetary gold transactions:	No comment.
	The recognition criteria are that: • An item satisfies the definition of an element; an • Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.	No comment.
	Definitions	
	An asset is: *A resource presently controlled by the entity as a result of a past event.*	No comment.
	Presently Controlled by the Entity An entity must have control of the resource. Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.	No comment.

Par	Content	Comment
	In assessing whether it presently controls a resource, an entity assesses whether the following indicators of control exist: • Legal ownership; • Access to the resource, or the ability to deny or restrict access to the resource; • The means to ensure that the resource is used to achieve its objectives; and • The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource. While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.	No comment.
	Factors to be Considered—Recognition	
4.21	The Conceptual Framework notes that items are recognized as assets when they satisfy the definition of an element and can be measured and requires consideration of the following: • Has a past event occurred? • Does the transaction give rise to a resource (noting that a resource is an item with service potential or the ability to generate economic benefits) • Does the entity presently control that resource (indicating that control of the resource entails the ability of the entity to use the resource to derive benefits from the service potential or economic benefits)?	No comment.

Par	Content	Comment
4.22	For monetary gold, the past event occurs when it is acquired. Monetary gold is a resource, because it can be sold to generate economic benefits or held for its service potential. As a result of the physical nature of monetary gold, a monetary authority either physically controls the asset by taking possession, stores the gold with an agent for safekeeping or is a party to a financial instrument that allows for settlement in physical gold. Control can be exercised whether the gold is held directly by the entity or not.	We agree with the recognition of monetary gold as asset because it meets all assets recognition criteria.
	Conclusion on Recognition	
4.23	Monetary gold satisfies the definition of an asset and the recognition criteria because it is a resource that provides economic benefits and service potential, and it is presently controlled.	We agree with the recognition of monetary gold as asset because it meets all assets recognition criteria.
	Factors to be Considered—Measurement	
4.24	Chapter 7 on measurement in the Conceptual Framework, paragraph 7.2, states the objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account and for decision-making purposes. Paragraph 7.3 further elaborates that selection of a measurement basis contributes to meeting the	No comment.

Par	Content	Comment
	objectives of financial reporting in the public sector by providing information that enables users to assess: a. The cost of services provided in the period in historical or current terms b. Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and c. Financial capacity—the capacity of the entity to continue to fund its activities	
4.25	The nature of monetary gold and its use by monetary authorities for reserve purposes means that information on the contribution to financial capacity is relevant. Monetary gold is not used directly in operations or to directly provide services, like other tangible assets. However, the acquisition cost and information on cost of services, provides relevant information for users, when monetary gold assets are intended to be held for an indeterminate period of time.	No comment.
4.26	Measurement bases that provide information on financial capacity are relevant, because they enable users to assess the ability of monetary authorities to provide stability and liquidity in the monetary system or to fund its activities. Monetary authorities may have different intentions for holding monetary	No comment.

Par	Content	Comment
	gold, which impacts whether information on financial capacity is useful to users.	
4.27	Measurement bases that provide information on cost of service may also be relevant, when monetary authorities have the intention of holding gold assets for an indeterminate period of time, because they enable users to assess the cost of acquiring monetary gold assets and holding them. Only when monetary gold assets are sold or impaired will their impact on costs of services be recognized in the statement of financial performance which may provide users with useful information.	No comment.
4.28	Monetary authorities have a variety of different reserve assets available for use to achieve their objectives. Depending on management of such reserves by monetary authorities, monetary gold may be held for a specific intention, as discussed in paragraph 4.5. If monetary gold is held for trading purposes, such as use for international payments, to influence the money supply and/or to provide liquidity and stability to the economy, then a measurement basis which provides information on financial capacity may be relevant.	No comment.
4.29	Alternatively, if the intention is to hold monetary gold for an indeterminate period, because it provides confidence in the	No comment.

Par	Content	Comment
	ability of monetary authorities to carry out their activities, then a measurement basis which provides information on cost of services may be relevant.	
4.30	Monetary authorities currently measure monetary gold either on a historical cost basis, or fair value/market value basis. A smaller group of monetary authorities also use a statutory rate. While statutory rates and their application vary between jurisdictions, monetary authorities using this method have a common aim of reducing the volatility caused by changes in gold prices. Use of a statutory rate is not a basis discussed in the Conceptual Framework.	No comment.
4.31	The IPSASB considered the Conceptual Framework and noted that of the six potential bases available, only market value in an open, active and orderly market and historical cost are practical to consider: a. Market value in an open, active and orderly market, as it is a current value measurement basis which provides users with the information required to assess the ability of monetary gold to contribute to the financial capacity of monetary authorities; and b. Historical cost, as it is an entry value which provides information on the resources exchanged to acquire monetary gold assets, which are available to provide services in future periods. Such information allows users to assess the minimum service potential monetary gold assets can provide to monetary authorities.	No comment.

Par	Content	Comment
4.32	The Conceptual Framework paragraph 7.4 states, that selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the Qualitative Characteristics (QCs). The IPSASB determined that historical cost and market value in open, active and orderly market are the appropriate measurement bases available for consideration. These are considered further in the following paragraphs.	No comment.
	Approach 1: Market value in an open, active and orderly market	
4.33	An assessment of the information provided by measuring monetary gold at market value for each of the QCs is summarized as follows: a. Relevance—Market value is a relevant measure that provides information on the contribution of monetary gold to financial capacity; b. Faithful Representation—Market value provides a faithfully representative view of the financial capacity monetary gold provides as it represents the exit value and is an objective price, available in a transparent, liquid market. Market value is also an entry value, because of the open, active and orderly market for gold, and therefore provides a faithfully representative view of operational capacity as well; c. Understandability—Market value information is understandable; the valuation of monetary gold using a spot rate is not complex;	We agree if monetary gold is measured by market value considering its characteristics as reserve asset that is ready for sale if needed. Furthermore, active market exists to provide a reliable market value.

Par	Content	Comment
	d. Timeliness—Market value provides measurement information in a timely manner. The gold markets are transparent and prices are available in real time. Information required for financial statements can be prepared quickly using simple calculations; e. Comparability—Market value provides measurement information which allows direct comparability of monetary gold assets with other assets, and between different monetary authorities; and f. Verifiability—Market value provides information which is verifiable, because there is an open, active and orderly market	
4.34	Measurement of monetary gold at market value gives rise to two further issues—accounting for changes in value and transaction costs. The IPSASB considered the Conceptual Framework in developing the accounting alternatives for each issue. Additionally, relevant IPSAS standards are also considered.	No comment.
4.35	Market value measurement requires monetary gold assets recognized in the statement of financial position to be revalued based on the spot rate. This provides users information to assess the financial capacity of monetary authorities. However, it does give rise to the issue of the appropriate place to recognize unrealized (and therefore possibly temporary) gains and losses, attributable to revaluations. There are different approaches for dealing with the recognition of unrealized gains or losses. One approach is to recognize all gains and losses in the statement of financial performance. Another approach is to recognize	No comment.

Par	Content	Comment
	unrealized gains or losses directly in net financial position (net assets/equity), until realized.	
4.36	Some may view recognition of all gains and losses due to changes in value in the statement of financial performance to be appropriate because IPSAS 1 requires this, unless a specific IPSAS states otherwise. Further, Chapter 7 of the Conceptual Framework notes the following: *revenue from providing services reported in the financial statements is measured on the basis of prices current in the reporting period. Thus the surplus or deficit for the period includes prices movements that take place over the period during which assets and liabilities are held, and no profit or loss is reported on the sale of an asset. Where the asset is traded on an open, active and orderly market, the existence of the market provides assurance that the entity would be able to realize the market value (and no more) at the reporting date: it is therefore unnecessary to postpone recognition of changes in value until a surplus is realized on a sale.*	We do not agree because the implementation of opportunity cost/gain concept is less relevant in the context of monetary authority. Recognition of income/gain and expense/loss in monetary authority should be related to the achievement of its objectives. The objective of monetary gold ownership as reserve asset is ended/achieved when it is released. Therefore, as long as it is still owned, the change in its value is not recognized in income statement or statement of surplus deficit, but rather as an equity component. Moreover, the ownership of monetary gold as reserve asset that is ready for sale at any time is similar to AFS which unrealized gain/loss is also presented as equity.
4.37	However, some view the approach to recognize unrealized gains or losses directly in net financial position (net assets/equity), as appropriate because it is consistent with IPSAS 29, which requires unrealized gains and losses for financial assets designated as available-for-sale (AFS) to be recognized directly in net financial position, until realized. Further, Chapter 5 of the Conceptual Framework notes that *revenue and (expenses), are increases (decreases) in the net financial position of the entity other than increases (decreases) arising from ownership*	No comment.

Par	Content	Comment
	contributions (distributions). Changes in fair value of monetary gold assets, both unrealized (temporary) and realized will give rise to revenue or expense as they result in changes in the net financial position (net assets /equity) of the entity which are not ownership contributions or distributions. Therefore, recognition of unrealized losses directly in net financial position (net assets/equity) or in the statement of financial performance may be appropriate when considering the guidance on recognition of elements in the Conceptual Framework.	
4.38	The global markets for trading gold can be very volatile. The volatility can cause significant changes in the value of monetary gold assets. Some argue that recognizing unrealized gains or losses in the statement of financial performance may not provide a faithfully representative view of the cost of services for the period presented. Further, some consider that this impairs the objectives of financial reporting by presenting information to users which does not reflect the true cost of services for the period, or the change in financial capacity provided by holding monetary gold assets. Therefore, it may be more appropriate to recognize unrealized gains or losses directly in net financial position (net assets/equity) until they are realized.	We agree, the final objective of monetary gold, which is to support monetary policy, is achieved when it is converted to other financial instrument, thus the unrealized fair value change of monetary gold is still recognized in equity.
4.39	Another consideration in determining the appropriate approach to recognition of unrealized gains or losses relates to the relationship of a monetary authority with the central government. Many monetary authorities are required to pay dividends to the central (national) government based on accounting profits.	No comment.

Par	Content	Comment
	Dividends paid based on unrealized gains or losses may lead to an erosion of capital to insufficient levels. As monetary authorities have an important role in the economy, it is important that they have adequate capital available. When monetary authorities are not properly capitalized, they may not be able to perform their role effectively.	
4.40	The approach to recognize unrealized gains and losses directly in net financial position (net assets/equity) and only realized gains and losses in surplus or deficit for the period addresses the issue of dividend distributions. It also ensures that surplus and deficit for each period reflects actual realized changes in capital (financial capacity) of monetary authorities. This allows users to evaluate the impact on surplus or deficit related to the sale and derecognition of monetary gold assets, and is consistent with the purpose monetary authorities hold gold assets for trading purposes. This approach is also consistent with how available-for-sale (AFS) financial assets are accounted for in IPSAS 29, Financial Instruments: Recognition and Measurement.	No comment.
	Approach 2: Historical Cost	
4.41	An assessment of the information provided by measuring monetary gold using historical cost for each of the QCs is summarized as follows:	If monetary gold held for indeterminate period meets the definition of reserve asset, then its measurement should be consistent with intention 1 that is using market value.

Par	Content	Comment
	a. Relevance—Historical cost information provides information on the minimum resources available to provide future services, based on their acquisition cost of monetary gold; b. Faithful Representation—Historical cost provides a faithfully representative view of the transaction price to acquire monetary gold, providing information on the minimum service potential but not information on the contribution to financial capacity that it provides; c. Understandability—Historical cost information is not complex. It provides information on the cost to acquire (entry value of) monetary gold; d. Timeliness—Historical cost information is timely, because transaction prices are easily obtainable and the carrying amount is stable between accounting periods unless monetary gold is acquired, sold or impaired; e. Comparability—Historical cost does not provide comparable information from one entity to another, as the value is based on the timing of the purchase of the gold by each entity and not the current economic value. However, it does provide comparable information from period to period for an individual entity, as changes in carrying amounts are stable, unless gold is acquired, sold or impaired; and f. Verifiability—Historical cost information for monetary gold is transaction based and easily verifiable.	
4.42	Historical cost is normally the fair value at the time of acquisition plus transaction costs (as these are part of the cost of acquiring the asset). Changes to the historical cost of monetary gold assets	No comment.

Par	Content	Comment
	only result from impairments, when the market price of gold decreases below the acquisition price. Losses due to impairment are recognized in the statement of financial performance, with a corresponding decrease in the carrying amount of the monetary gold assets on the statement of financial position.	
4.43	Historical cost reflects the cost to acquire the gold assets and the minimum service potential provided by holding it. Monetary authorities with the intention of holding monetary gold because of its service potential, are often more concerned with the quantity of gold held. Therefore, changes in the historical cost values on the statement of financial position directly relate to either increases or decreases in the quantity of monetary gold assets, or impairments of monetary gold assets. The historical cost approach also addresses the issue of ensuring the unrealized gains and losses are not distributed as dividends by monetary authorities.	No comment.
	Consistency with Current IPSASs	
	Approach 1: Market value in an open, active and orderly marke	
4.44	Guidance on accounting for financial assets in IPSAS 29 is based on the classification of the financial instrument, with different	No comment.

Par	Content	Comment
	requirements for initial recognition, treatment of transaction costs and subsequent changes in value.	
4.45	Monetary gold held with the intention of trading is similar to the IPSAS 29 requirements for financial assets classified at fair value through surplus or deficit (FV) or available-for-sale (AFS).	No comment.
4.46	Fair value in IPSASs is defined as the amount for which assets could be exchanged between knowledgeable, willing parties in an arm's length transaction. In the case of monetary gold this is the spot rate of gold. Fair value for monetary gold assets is the same regardless of whether it is classified as FV or AFS.	No comment.
4.47	IPSAS 29 requires initial transaction costs to be expensed as incurred in the statement of financial performance when classified as FV. Transaction costs directly attributable to the acquisition of AFS assets are included as part of the initial cost of the assets (fair value plus directly attributable transaction costs).	No comment.
4.48	The classification of FV and AFS for financial assets also impacts how subsequent changes in value are accounted for. For those assets classified as FV, all changes in value, both realized and	No comment.

Par	Content	Comment
	unrealized, are recognized in the statement of financial performance. For those assets classified as AFS, unrealized changes in value are recognized directly in net financial position. For changes in value which are realized (due to derecognition of the assets), or when the financial assets are impaired, the cumulative gain or loss is recognized in the statement of financial performance.	
	Approach 2: Historical cost	
	There are many current IPSASs which use a historical cost measurement model. The appropriate measurement model to consider depends on whether monetary gold is viewed as a tangible asset or as a financial asset. The most appropriate applications of the historical cost measurement model in IPSAS are as follows: a. IPSAS 12, Inventories, requires initial measurement at cost, which includes all costs of purchase and other costs in bringing inventories to present location and condition. Subsequent measurement is at the lower of cost and net realizable value, except where inventories are acquired in a non-exchange transaction or where inventories are likely to be distributed at no or nominal charge (unlikely for monetary gold). For monetary gold, initial measurement would be the purchase price, plus initial transaction costs. At subsequent reporting periods, the cost of inventory is compared to the recoverable amount to determine if the inventories require a	No comment.

Par	Content	Comment
	write down to net realizable value. Since IPSAS 12 is intended for goods purchased and held for resale, it is not appropriate for monetary gold assets held for an indeterminate period of time. b. IPSAS 17, Property, Plant and Equipment, requires that an item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. Cost includes purchase price, plus non-refundable duties and taxes, net of rebates, plus any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, plus any estimate of the costs of dismantling and removing the item and restoring the site is located, for which the obligation related to such costs has been recognized. For monetary gold, this would be fair value plus initial transaction costs. Using IPSAS 17 by analogy to measure monetary gold assets, is similar to how the standard treats land. Land is measured at its initial fair value plus transaction costs and is not amortized. c. IPSAS 29 requires that financial assets classified as AFS for which there is not a quoted market price in an active market and which cannot be reliably measured, are required to be measured at cost. Although, an active market for gold does exist, this does demonstrate the use of the historical cost model in the IPSASB's financial instrument standards. Monetary gold assets held for an indeterminate period of time by monetary authorities, without a history of selling such assets, may be considered similar transactions to thinly traded or illiquid equity securities, which lack a market price.	

Par	Content	Comment
	Summary	
4.50	Both historical cost and market value provide information which is useful to users. Monetary authorities may hold monetary gold assets to aid in achieving different intentions as discussed in paragraph 4.5. Depending on the monetary authority's primary intention for holding monetary gold, there may be benefits for using historical cost over market value as a measurement basis, or vice versa: a. Monetary authorities with the primary intention of holding monetary gold for use similar to foreign currency may prefer an exit value measurement basis. In this case, market value is a more appropriate measurement basis, because it provides information to assess the financial capacity of the entity. The best exit value measure is market value because there is an open, active and orderly market for gold, which is non-entity specific. By using market value to measure the value of monetary gold, it allows for the faithful representation of the contribution of monetary gold to an entity's financial capacity. b. Monetary authorities with the primary intention of holding monetary gold for an indeterminate period of time may prefer an entry value measurement basis. Some monetary authorities hold large quantities of monetary gold and do not have a history of sales. Additionally monetary authorities in some circumstances are restricted from selling monetary gold assets. Therefore, a historical cost measurement basis may be more appropriate, as it reflects the value to acquire monetary gold assets. It also allows users to assess the cost of	• We agree that monetary gold is measured at market value considering its characteristics as reserve asset that is ready to be sold if needed. Moreover, active market exists to provide a reliable market value. • If monetary gold held for indeterminate period meets the definition of reserve asset, then its measurement should be consistent with intention 1 that is using market value. • Impairment of contractual rights to acquire gold has not been regulated.

Par	Content	Comment
	acquiring/holding monetary gold and the service potential provided by reference to an actual transaction. Using historical cost to measure monetary gold also avoids introducing volatility into the statement of financial position and the statement of financial performance, which is consistent with some monetary authorities' intention in holding gold assets. Gold prices change significantly over time and the impact of using a market value measurement basis, can impair users' ability to assess the real cost of providing services, such as ensuring monetary stability.	
	Specific Matters for Comment – Chapter 4-1 b. 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.	• In practice, can intention 1 and 2 be separated unequivocally? In our understanding based on the practice in Bank Indonesia, intention 1 and 2 cannot be separated. Holdings of gold as reserves are intended simultaneously to both intentions, which are enhancing financial capacity as well as increasing public trust in BI's ability to perform its duties as a central bank. • Related to intention 2, features that prohibit or limit the ability of monetary authorities to sell gold cause the gold holdings with intention 2 no longer meet the definition of reserve assets as reserve assets should be ready to be converted at any time. The fact that gold is rarely used as an instrument of monetary policy (rarely traded by central banks) occurred solely because of practical considerations, rather than intention differences. • Based on the above two points, the question is irrelevant, because there should be only one intention of gold holdings,

Par	Content	Comment
		that is as reserves. Therefore, the measurement is also only one, no choices
	Specific Matters for Comment – Chapter 4-2 b. 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).	Similar to our comment on the specific matters for comment 4-1, there should be only one measurement for gold as reserve asset that is fair value. Fair value measurement is the most appropriate measurement to the nature and characteristic of reserve assets, which is ready to be released/sold at any time (reflecting financial capacity). Acquisition price measurement is appropriate only if the gold is owned by central banks for collection only and is not part of reserve assets
	Chapter 5: International Monetary Fund (IMF) Quota Subscription and Special Drawing Rights (SDR)	
	Chapter Objective	
5.1	The objective of this chapter is to discuss the IPSASB's proposal that:	Point b indicates that IPSAS considers statement of surplus deficit or income statement of central banks as financial

Par	Content	Comment
	An entity shall account for the IMF quota subscriptions and SDR holdings and allocations in a manner that helps users of its financial statements assess: • Their impact on the entity's financial performance and financial position; and • Their nature and extent of risks arising from them, and how the entity manages those risks.	performance measurement. In our opinion, statement of surplus deficit or income statement of central banks reflects the financial impact of policy implementation that has achieved its objective in current period. There are no further explanations regarding point c in the next paragraphs.
	Introduction	
5.2	The IMF is an international cooperative monetary organization of member countries, established to carry out key activities in three areas: lending, international monetary system surveillance, and capacity building.	No comment.
5.3	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 quota is also the key determinant of the voting power, amount of financial assistance available to the member from the IMF, and the member country's allocations of Special Drawing Rights (SDRs).	No comment.
5.4	The value of a unit of SDRs is based on a basket of four currencies (Euro, Japanese Yen, Pound Sterling and US Dollar, with the Chinese Renminbi being added as a fifth currency from	No comment.

Par	Content	Comment
	October 2016). The US dollar-equivalent value of the SDR is posted daily on the IMF's website and is calculated as the sum of the specific amounts of the four basket currencies, on the basis of the middle rate between the buying and selling exchange rates quoted at noon each day in the London market.	
5.5	Transactions and asset/liability positions with the IMF are allocated between different institutions (usually the central bank or government) dependent on institutional and legal arrangements specific to each member country. Typically these transactions are recognized by the central bank. However, in some countries, transactions occur through government directly, or by the government (usually the department of finance or treasury) with the monetary authority as an intermediary.	No comment.
5.6	For more information on the background and operation of the IMF, please see Appendix E.	No comment.
	Definitions	
5.7	This section of the CP addresses the scope and definitions for any future guidance related to IMF quota subscriptions, SDR holdings and SDR allocations. Appendix A provides extracts from the Balance of Payments	No comment.

Par	Content	Comment
	International Investment Position Manual—Sixth Edition, which forms the basis for statistical accounting under GFS for transactions of monetary authorities. Based on that guidance, the IPSASB proposes the following definitions for the IMF-related transactions in scope of this CP:	
5.8	The proposed definition of **IMF Quota Subscriptions** is as follows: "The amount equal to the assigned quota, payable by the member on joining the IMF, and as adjusted subsequently."	No comment.
5.9	The IMF periodically reviews and adjusts member quotas. Additional contributions or redemptions may be required at this time.	No comment.
5.10	Exchange rate fluctuations in a member's domestic currency may give rise to adjusting contributions to, or redemptions from the IMF. When the domestic currency of a member devalues, an adjusting contribution for the quota subscription is required to the IMF. Conversely, when the domestic currency of a member appreciates, an adjusting redemption is received from the IMF.	No comment.
5.11	The proposed definition of **SDR Holdings** is as follows: "International reserve assets created by the IMF and allocated to members to supplement reserves."	No comment.

Par	Content	Comment
5.12	The proposed definition of SDR Allocations is as follows: "Obligations which arise through IMF member's participation in the SDR Department and that are related to the allocation of SDR holdings."	No comment.
	Preliminary View – Chapter 5-1 The definitions are as follows: d. The IMF Quota Subscription is the amount equal to the assigned quota, payable by the member on joining the IMF, and as adjusted subsequently. e. SDR Holdings are International reserve assets created by the IMF and allocated to members to supplement reserves. f. 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?	• We believe that IPSASB does not have to regulate the accounting treatment of IMF special drawing rights because: (a) IMF has set it up specifically and applicable in all central banks that are members of IMF; and (b) the value is immaterial relative to the total assets of the central banks. Regulations by IPSASB will demand a revision by IPSASB on the ratified standard if it turns out that IMF change its policy. • If IPSASB keeps the related standard, we agree with the three definitions proposed in CP.
	Nature and Function	
	IMF Quota Subscription	
5.13	The quota subscription provides members with membership in the IMF; that membership brings rights, benefits and obligations. Twenty-five percent of a member's quota is paid in reserve assets	No comment.

Par	Content	Comment
	(SDRs or foreign currency acceptable to the IMF), with the remaining seventy-five percent paid with domestic currency or a promissory note. The quota subscription gives: a. Voting rights equal to the size of a member's quota relative to total membership; b. Payments of interest from the IMF based upon a calculation of a member's 'reserve tranche position'; and c. A right to borrow from the IMF based on the amount of the quota subscription for balance of payment needs.	
5.14	The quota subscription has attributes of financial instruments, with similarities to: a. Common shares in that the size of a member's quota determines voting rights and an ability to influence the activities of the IMF; and b. Debt instruments like bonds, loans, and preference shares because of the payment of interest on the reserve tranche position, as opposed to a return on profit or a return on the investment.	No comment.
5.15	The right to borrow from the IMF based on the amount of the quota subscription for balance of payments needs is a unique attribute that could be viewed as similar to a collateral borrowing arrangement, where borrowing is permitted on demand up to a certain collateral level.	No comment.

Par	Content	Comment
5.16	The Quota Subscription differs from common shares in that, being the equivalent of a membership fee, it cannot be sold. The only way to exit the investment is to withdraw from the IMF voluntarily or for the IMF to remove the member Appendix F, includes a number of illustrative examples related to the IMF quota subscription.	No comment.
	SDR Holdings and Allocations	
5.17	IMF members receive SDR holdings and allocations based on the relative size of their IMF quota subscription. The holdings and allocations at the time they are granted are equal in size. The rate of interest accrued and charged are the same for SDR holdings and allocations.	No comment.
5.18	SDR holdings provide members with a reserve asset, which can only be used to obtain foreign currency from other members through the IMF. SDR holdings are valued based upon the daily exchange rates of four underlying currencies (Euro, Japanese Yen, Pound Sterling and US Dollar) and therefore are similar to foreign currency. However, unlike a foreign currency, SDRs cannot be used to directly pay for the purchase goods or services.	No comment.
5.19	SDR allocations represent the obligation assumed when SDR holdings are distributed to members. IMF members must stand	No comment.

Par	Content	Comment
	ready to provide foreign currency holdings up to the amount of their SDR allocation. The IMF charges interest at a set SDR rate on the cumulative allocation amount. The SDR allocation has the attributes of a demand loan or credit line, without requirements to repay principal or a maturity date. Appendix F, includes a number of illustrative examples related to SDR holdings and allocations.	
	Accounting Considerations	
	Key Guidance from the Conceptual Framework	
5.20	This CP considers the different accounting approaches for IMF quota subscriptions, SDR holdings and SDR allocations. The approaches consider the guidance of the Conceptual Framework:	No comment.
	The recognition criteria are that: • An item satisfies the definition of an element; and • Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.	No comment.
	Definitions	
	An asset is: A resource presently controlled by the entity as a result of a past event	No comment.

Par	Content	Comment
	Presently Controlled by the Entity	
	An entity must have control of the resource. Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. In assessing whether it presently controls a resource, an entity assesses whether the following indicators of control exist: • Legal ownership; • Access to the resource, or the ability to deny or restrict access to the resource; • The means to ensure that the resource is used to achieve its objectives; and • The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource. While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.	No comment.

Par	Content	Comment
	Definition	
	A liability is: A present obligation of the entity for an outflow of resources that results from a past event.	No comment.
	A Present Obligation Public sector entities can have a number of obligations. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.	No comment.
	Factors to be Considered—Recognition	
5.21	The Conceptual Framework notes that items are recognized as assets or liabilities when they satisfy the definition of an element and can be measured and requires consideration of the following: • Has a past event occurred? • Does the transaction give rise to a resource (noting that a resource is an item with service potential or the ability to generate economic benefits) or a present obligation?	No comment.

Par	Content	Comment
	• Does the entity presently control that resource (indicating that control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) to derive benefits from the service potential or economic benefits)?	
5.22	Table 5-1 below considers each of these requirements for IMF quota subscriptions, SDR holdings and SDR allocations.	No comment.
	<u>IMF Quota Subscription</u> **Past event** When the payment is made. **Giving rise to a resource or a present obligation** A resource. The quota may give rise to both service potential and the ability to generate economic benefits. Service potential may be provided indirectly because of the overall benefits to a member's economy from the IMF's contributions to the international financial structure. The quota also provides	We agree because all asset recognition criteria are met.

Par	Content	Comment
	economic benefits because it may decrease costs of borrowing for foreign currency (reserve assets) because of the SDR market. **Control of the resource or ability to avoid an outflow of resources** a. The IMF quota provides voting rights relative to the size of the members' quota compared to the total outstanding member quotas. This allows members the ability to impact decisions of the IMF. Further, the Articles of Agreement set out procedures for members to withdraw from the IMF and include rights and obligations to settle outstanding accounts, including the quota subscription. These two factors are indicators of present control of the resource. b. The IMF requires a minimum of 25% of the quota to be payable in reserve assets and the remaining balance to be payable in domestic currency or by issuance of a promissory note. The IMF pays members interest based on the member's reserve tranche position. Member's which have a larger reserve tranche position receive higher interest payments. Does the split in payment method or difference in potential benefits impact the assessment of control over the resource? It is thought that it would not because the subscription is payable in full. Therefore, the different payment methods do not impact the ability to presently control the resource.	

Par	Content	Comment
	<u>**SDR Holdings**</u> **Past event** Receipt of SDR holdings after a country becomes a member of the IMF, and a participant of the SDR Department, or after acquisition of SDR holdings. **Giving rise to a resource or a present obligation** A resource. a. SDR holdings can be used as consideration to transact with other IMF members for foreign currency; and b. The holdings accrue interest from the SDR department. **Control of the resource or ability to avoid an outflow of resources** a. Members are free to transact the SDRs through the IMF or other voluntary arrangements at the member's discretion; and b. The IMF Articles of Agreement set out the obligations and rules for the use of SDRs and which members agree to when participating in the SDR department; which facilitate the functioning of the SDR market.	We agree because all asset recognition criteria are met.
	<u>**SDR Allocations**</u>	We agree because all liability recognition criteria are met.

Par	Content	Comment
	Past event Membership in the IMF, participation in the SDR program and allocation of SDRs. **Giving rise to a resource or a present obligation** A present obligation.. a. The IMF Articles of Agreement set out the rights and obligations of the IMF and IMF members. These articles include dispute resolution mechanisms to be overseen by the International Court of Justice, which therefore appear to be backed by the force of law. Therefore, SDR allocations appear to be legally enforceable they appear to give rise to a legally binding obligation. b. In the event that one questions if the IMF Articles of Agreement give rise to a legally enforceable obligation, there would appear to be a high likelihood that a non-legally binding obligation may also exist because, by joining the IMF participating in the SDR department, a member indicates to the IMF as well as other members of the fund, that it accepts the responsibilities set out in the Articles of Agreement and creates a valid expectation that it will discharge those responsibilities. Failure to discharge those responsibilities is not viewed as realistic, because it would likely lead to withdrawal from the IMF.	

Par	Content	Comment
	Control of the resource or ability to avoid an outflow of resources As the allocations are legally enforceable, there is little or no realistic alternative to avoid an outflow of resources.	
	Conclusions on Recognition	
5.23	The IMF quota subscription satisfies the definition of an asset because it is a resource that provides service potential and economic benefits which is presently controlled. Some may argue that, because of the unique nature of the quota subscription, it could be considered a grant or a fee to the IMF. If so, an alternative approach may be to recognize the contribution as an expense because it would satisfy the definition of an expense if it decreased the net financial position of the entity. However, because the quota satisfies the definition of an asset, it would not decrease the net financial position of the entity and it does not appear appropriate, therefore, to consider it as an expense and the CP does not propose this alternative.	We agree because all asset recognition criteria are met.
5.24	SDR holdings satisfy the asset element definition and recognition criteria in the Conceptual Framework. There does not appear to be a viable alternative treatment to consider.	We agree because all asset recognition criteria are met.

Par	Content	Comment
5.25	SDR allocations satisfy the definition of a liability because a present obligation exists to other members of the IMF and there is no realistic ability to avoid settlement of that liability (because it is legally enforceable). There does not appear to be a viable alternative treatment to consider.	We agree because all liability recognition criteria are met.
	Factors to be Considered—Measurement	
	Chapter 7 on measurement in the Conceptual Framework, paragraph 7.2, states *the objective of* *measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account and for decision-making purposes. Paragraph 7.3 further elaborates that selection of a measurement basis contributes to meeting the objectives of financial reporting in the public sector by providing information that enables users to assess:* a. The cost of services provided in the period in historical or current terms; b. Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and c. Financial capacity—the capacity of the entity to continue to fund its activities.	No comment.

Par	Content	Comment
5.27	The IMF quota subscription is a requirement for membership in the IMF and provides its main source of funding. IMF membership provides benefits to members through its lending facilities, oversight of the international monetary system and capacity building services for developing countries. All of these IMF activities provide benefits that impact the global economy by helping to promote economic growth and stability. IMF membership helps ensure monetary authorities have the capacity to support the provision of services in future periods through physical and other resources and therefore information on operational capacity is most relevant.	No comment.
5.28	SDRs were created by the IMF to supplement other reserve assets and help ensure growth in international trade through increased global liquidity. Use of SDRs (SDR holdings and allocations) for reserve purposes, indicates that information on their contribution to financial capacity is most relevant. This is because reserve assets need to be readily available for balance of payments financing needs, intervention in the currency markets and to maintain confidence in the currency and local economy. As such, their measurement basis needs to reflect the value available to the entity to fund such activities.	No comment.
5.29	The IPSASB considered the Conceptual Framework guidance related to measurement for each of the IMF Quota Subscription, SDR holdings and SDR allocations. The IPSASB has analyzed the applicable measurement bases in table 5-2.	No comment.

Par	Content	Comment
	<u>Historical Cost</u> Defined in the Conceptual Framework as: The consideration given (received) to acquire or develop an asset (assume an obligation), which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development (received at the time the liability is incurred). **IMF Quota Subscription** Appropriate for initial measurement because it is an entry value which provides information on the resources exchanged to acquire the IMF quota subscription (and the related IMF membership benefits). Further, when additional adjusting contributions to, or redemptions from the IMF, are required as a result of exchange rates fluctuations of a member's domestic currency, historical cost may be appropriate when it reflects the cumulative resources contributed for the IMF quota subscription. However, the IMF quota subscription is denominated in SDRs and may require translation at each reporting date as it is analogous with a monetary item as defined in IPSAS 4, The Effects of Changes in Foreign Exchange Rates.When the translated value of the quota subscription is equal to the cumulative resources contributed to the IMF, historical cost is appropriate. When there is a difference between the cumulative resources contributed and the translated value of the quota subscription, historical cost is not appropriate.	We agree that SDR holdings and SDR allocation are measured at market value because both are reserve assets and active market exists.

Par	Content	Comment
	SDR Holdings Appropriate for initial measurement as it provides users with the financial capacity provided to monetary authorities from SDR holdings as the amount of consideration given to acquire SDR holdings. However, historical cost would not be appropriate for subsequent measurement because SDR holdings are considered a monetary item in accordance with IPSAS 4, The Effects of Changes in Foreign Exchange Rates and therefore require translation at each reporting date. **SDR Allocations** Appropriate for initial recognition and measurement as it provides users with information on the impact on monetary authorities financial capacity from SDR allocations, as the amount of consideration received to assume SDR allocations. However, historical cost would not be appropriate for subsequent measurement because SDR allocations are considered a monetary item in accordance with IPSAS 4, The Effects of Changes in Foreign Exchange Rates and therefore require translation at each reporting date.	

Par	Content	Comment
	<u>Market Value</u> Defined in the Conceptual Framework as: The amount for which an asset (liability) could be exchanged (settled) between knowledgeable, willing parties in an arm's length transaction **IMF Quota Subscription** The IMF quota subscription cannot be exchanged – that is, IMF members cannot sell their quota to another member or any other entity. Therefore, an open, active and orderly market does not exist. IMF members can redeem their quota subscription with the IMF and such a redemption could be considered a sale in an inactive market. However, the IPSASB view is that net selling price would be the more appropriate measurement basis to consider if a redemption is considered equivalent to a sale. Further, the IPSASB's view is measurement at market value in an inactive market would not be materially different than net selling price, as transaction costs do not appear significant. **SDR Holdings** Appropriate, because an open, active and orderly market exists, facilitated by the IMF, where transactions occur through the SDR department at the prevailing market rate. Therefore, use of a market rate provides users the best information on the financial capacity SDR holdings can provide the monetary authority.	We agree that SDR holdings and SDR allocation are measured at market value because both are reserve assets and active market exists.

Par	Content	Comment
	SDR Allocations Appropriate, because an open, active and orderly market exists,facilitated by the IMF, where transactions occur through the SDR department at the prevailing market rate. Therefore, use of a market rate, would provide users the best information to assess the impact of SDR allocations on financial capacity of the monetary authority.	
	<u>Replacement cost</u> Defined in the Conceptual Framework as: The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date. **IMF Quota Subscription** Not appropriate **SDR Holdings** The IPSASB's view is this is not materially different from market value, because to replace the service potential of SDR holdings would require purchasing SDR holdings at market value.	No comment.

Par	Content	Comment
	SDR Allocations Not applicable for liabilities	
	Net Selling Price Defined in the Conceptual Framework as The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.Due to the unique nature of the IMF investment, it is not thought that it could be sold. However, it can be redeemed by withdrawing from the IMF, which may be considered similar to a sale, with the amount recovered equivalent to a redemption at the net selling price. **IMF Quota Subscription** Due to the unique nature of the IMF investment, it is not thought that it could be sold. However, it can be redeemed by withdrawing from the IMF, which may be considered similar to a sale, with the amount recovered equivalent to a redemption at the net selling price.	No comment.

Par	Content	Comment
	SDR Holdings The IPSASB's view is this is not materially different from market value, as the IMF SDR department does not appear to include significant transaction costs. **SDR Allocations** Not applicable for liabilities	
	<u>**Value in use**</u> Defined in the Conceptual Framework as The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life. **IMF Quota Subscription** Not appropriate **SDR Holdings** Not appropriate	No comment.

Par	Content	Comment
	SDR Allocations Not applicable for liabilities	
	<u>Cost of fulfillment</u> Defined in the Conceptual Framework as: The costs that the entity will incur in fulfilling the obligations represented by the liability, assuming it does so in the least costly manner. **IMF Quota Subscription** Not applicable for assets **SDR Holdings** Not applicable for assets **SDR Allocations** When the cost of fulfillment is dependent on uncertain future events, all possible outcomes are taken into account. The timing of settlement of SDR allocations is uncertain because settlement is at the discretion of other IMF members. The SDR allocation is	No comment.

Par	Content	Comment
	a legally enforceable obligation, therefore settlement would be at the market value of the liability.	
	<u>Cost of Release</u> Defined in the Conceptual Framework as The amount of an immediate exit from the obligation, or the amount a creditor will accept in settlement of the claim. **IMF Quota Subscription** Not applicable for assets **SDR Holdings** Not applicable for assets	No comment.

Par	Content	Comment
	SDR Allocations Not appropriate, as IMF members have little to no ability to seek immediate exit from the SDR allocation, as the timing of settlement is controlled by other IMF members.	
	<u>**Assumption Price**</u> Defined in the Conceptual Framework as The amount that an entity would rationally be willing to accept in exchange for assuming an existing liability. **IMF Quota Subscription** Not applicable for assets **SDR Holdings** Not applicable for assets **SDR Allocations** Not appropriate, as the SDR allocation obligation is not likely to be transferrable from the IMF member.	No comment.

Par	Content	Comment
	Conclusions on Measurement	
5.30	Based on the analysis in table 5-2, the IPSASB concludes that: a. A mix of measurement bases should be used for the IMF quota subscription. Historical cost is appropriate for measurement on initial recognition and may be appropriate subsequently when adjusting contributions to, or redemptions from the IMF reflect the cumulative resources contributed for the quota subscription. Historical cost is not appropriate for subsequent measurement when the translated value of the quota subscription does not equal the cumulative resources contributed, as this value no longer reflects the historical cost. Under such circumstances, net selling price would be most appropriate. The mixed measurement approach is appropriate because it provides users with the best information on the operational capacity provided by the IMF quota subscription; and b. The SDR holdings and allocations should be measured at market value, because it provides users with the best information on the impact on financial capacity.	• We agree that IMF Quota Subscription is measured at historical cost because it matches the value delivered to IMF by central banks as if savings account. • We agree that SDR holdings and SDR allocation are measured at market value because both are reserve assets and active market exists.
	Consistency with current IPSASs	
	IMF Quota Subscription	
5.31	The conceptual discussion for the IMF quota subscription is consistent with requirements in IPSAS 29 to treat it as a financial asset. Further, it is consistent with how some IMF members account for the quota when applying IFRS.	No comment.

Par	Content	Comment
	IMF SDR Holdings	
5.32	The conceptual discussion for the IMF quota subscription is consistent with requirements in IPSAS 29 to treat it as a financial asset. Further, it is consistent with how some IMF members account for the quota when applying IFRS.	No comment.
	IMF SDR Holdings	
5.33	The conceptual discussion for SDR holdings is consistent with accounting for the SDR holdings as a financial asset measured at fair value through surplus or deficit and the requirements in IPSAS 29. Further, the treatment is consistent with how some IMF members account for SDR holdings when applying IFRS. Additionally the conceptual discussion is consistent with the treatment of a foreign currency in IPSAS 4, The Effects of Changes in Foreign Exchange Rates, with recognition at the exchange rate between the functional currency and foreign currency (market rate) at the transaction date and at the closing rate (market rate) at subsequent reporting periods. The proposed treatment is also consistent with the applicable requirements under Government Finance Statistics.	No comment.
	IMF SDR Allocations	
	The conceptual discussion related to accounting for SDR allocations is consistent with accounting for the SDR allocations	No comment.

<table>
<tr><th>Par</th><th>Content</th><th>Comment</th></tr>
<tr><td></td><td>as a financial liability measured at amortized cost and the requirements in IPSAS 29. Further, the treatment is consistent with how some IMF members account for SDR allocations when applying IFRS. The proposed treatment is also consistent with the applicable requirements under Government Finance Statistics.</td><td></td></tr>
<tr><td></td><td>Preliminary View – Chapter 5-2

The IPSASBs view is that:

d. 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.
e. SDR holdings satisfy the Conceptual Framework definition of an asset and should be recognized, with measurement at market value.
f. 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?</td><td>• As mentioned in our letter, we believe that IPSASB does not have to regulate the accounting treatment of IMF special drawing rights because: (a) IMF has set it up specifically and applicable in all central banks that are members of IMF; and (b) the value is immaterial relative to the total assets of the central banks. Regulations by IPSASB will demand a revision by IPSASB on the ratified standard if it turns out that IMF change its policy.
• If IPSASB keeps the related standard:
○ We agree with IPSASB that recognizes IMF Quota Subscription as an asset that is measured at historical cost because it matches the value delivered to IMF by central banks as if savings account. We also agree with the choices of subsequent measurement: historical cost or net selling price depends on whether there are changes in the value or not.
○ We agree with IPSASB that recognizes SDR holdings as an asset and SDR allocation as a liability and measured at market value because it is a reserve asset and active market exists.</td></tr>
</table>