



FINANCIAL REPORTING COUNCIL OF NIGERIA

Federal Ministry of Industry, Trade and Investment

Ross Smith
International Public Sector Accounting Standards Board
International Federation of Accountants
592 5th Avenue
New York, New York 10017
United States of America

December 19, 2016

Dear Smith,

RE: CONSULTATION PAPER (CP), PUBLIC SECTOR SPECIFIC FINANCIAL INSTRUMENTS

The Financial Reporting Council (FRC) of Nigeria welcomes the proposed amendments to the IPSAS: Consultation Paper on Public Sector Specific Financial Instruments.

In view of the responses received from the constituents in Nigeria, the Council wish to comment on the proposed amendments to the Public Sector Financial Instruments.

1. Preliminary View – Chapter 2 (following paragraph 2.9)

Definitions are as follows:

- a) **Monetary authority** is the entity or entities, including the Central Bank or a department[s] of the central [national] government, which carry out operations usually attributed to the central bank.
- b) **Reserve assets** are those external assets held by monetary authorities that are readily available for balance of payments financing needs, intervention in the currency markets to affect exchange rates and maintaining confidence in the currency and the economy.

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

Comments

Yes, the Council agrees with the IPSASB'S Preliminary View on the definition of Monetary Authority and Reserve Assets.

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2. Preliminary View- Chapter 3-1 (following paragraph 3.10)

Definition is as follows:

a) **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?

Comments

Yes, the Council agrees with the IPSASB's Preliminary View on the definition of Currency in Circulation.

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

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

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

Comments

Yes, the Council agrees with the IPSASB's view that the accounting treatment should be consistent for both notes and coins.

The Council also believes that notes and coins are used in the same manner for payments and as such the accounting treatment should be the same irrespective of their physical characteristics.

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

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

- i. Statement of financial performance; or
- ii. Statement of net assets/equity?

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.

Comments

We believe that the appropriate financial statement in which to recognize revenue is the Statement of Financial Performance. The Statement of Financial Performance reports an entity's financial performance over a particular reporting period, considering all the expenses and revenue from both exchange traded and non-exchange traded transactions.

IPSAS 1: *Presentation of Financial Statements* defines revenue as the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

The standard also states that all items of revenue and expenses recognized in a period should be included in the surplus or deficit unless an IPSAS requires otherwise. It further prescribed the minimum information to be provided in the Statement of Financial Performance and **revenue** was listed as one of these items.

We therefore believe that the revenue should be recognized in the Statement of Financial Performance, irrespective of the exchange traded or non-exchange traded nature of the transaction that gave rise to the revenue.

5. Preliminary View –Chapter 4 (following paragraph 4.14)

Definitions are as follows:

- a) **Monetary gold** is tangible gold held by monetary authorities as reserve assets.
- b) **Tangible gold** is physical gold that has a minimum purity of 995 parts per 1000.

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

Comments

Yes, the Council agrees with the IPSASB's Preliminary View on the definition on monetary gold and tangible gold.

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

- a) Should entities have the option to designate a measure 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.

Comments

The IPSASB proposed option, requiring entities to designate a measurement basis, based on their intentions in holding monetary gold assets is quite reasonable and

in line with the existing classification criteria for financial instruments under IAS 39 *Financial Instruments: Recognition and Measurement*.

We also believe that designating a measurement category on the basis of intentions will help remove inconsistencies across various jurisdictions in the accounting for monetary gold assets.

As much as the Council believes that designating a measurement category on the basis of intentions for holding monetary gold assets is reasonable for now, there may be need to start considering the classification criteria contained in IFRS 9 *Financial Instruments*, particularly those relating to the business model criterion.

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

- a) 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).

Comments

Market value:

The Council believes that it would be appropriate to measure monetary gold assets held for transaction purposes and intended to be held for a short term at market value. This is because market value usually reflects the current economic conditions relating to a financial instrument and as a result provides useful information to the users of financial statements for investment decision making purposes. The merits of the market value measurement basis are as follows:

1. **Timely/relevant information:** It utilizes information based on current market conditions.

2. **Provides more information in the financial statements than historical cost:** It enhances the informative power of financial statements as opposed to the historical cost.
3. **Reliable Information/Transparency:** Pricing information from market value is reliable, verifiable and neutral. Market value is derived from an active market and is publicly available.

The major weakness of the market value basis of measurement is **volatility**. This is because the market value of a financial instrument is dependent on Market conditions, which may change very fast within a short period of time.

Historical Cost:

The Council believes that it would be appropriate to measure monetary gold assets not held for transaction purposes and intended to be held for an indeterminate period of time at Historical Cost. This is because of the following reasons.

1. **Simplicity:** It is a simpler and a more cost effective method of assets valuation as it does not reflect current market conditions in the carrying value of monetary gold.
2. **Conservative:** It does not recognize in the financial statements of an entity, unrealized gain or loss on the monetary gold.

The major weakness of the historical cost basis of measurement is that it does not reflect the current changes in **price level of a financial instrument**. Monetary gold measured under historical cost basis are based on historical facts and conditions. Changes in the market value arising from changes in the economic conditions are not taken into account. Thus, the historical cost measurement basis does not reflect in the financial statements of an entity, the current market value of financial instruments.

Our views on the appropriate measurement bases are as follows:

Monetary Assets intended to be held for its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets – The Council supports the IPSASB option to measure these assets at Market Value.

Monetary Assets intended to be held for an indeterminate period of time– the Council believes that this should be measured at the lower of cost or net realizable value.

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

Definitions are as follows:

- a) The **IMF Quota Subscription** is the amount equal to the assigned quota, payable by the member on joining the IMF, and as adjusted subsequently.

- b) **SDR Holdings** are International reserve assets created by the IMF and allocated to members to supplement reserves.
- c) **SDR Allocations** are obligations which arise through IMF member's participation in the SDR Department and that are related to the allocation of SDR holdings.

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

Comments

Yes, the Council agrees with the IPSASB's Preliminary Views in this regard.

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

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.

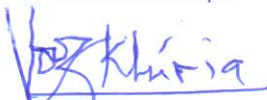
Do you agree with the IPSASB's Preliminary View –Chapter 5-2?

Comments

Yes, the Council agrees with the IPSASB's Preliminary Views in this regard.

If you require any further information or clarification please contact the Executive Secretary/Chief Executive Officer on (234) 1-7937405 or joobazee@financialreportingcouncil.gov.ng.

Yours sincerely,



VINCENT OKHIRIA

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For: Executive Secretary/CEO