ICAN

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

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ICAN/R&T/ED/DEC/2016

The Technical Director
IPASASB
529 Fifth Avenue
New York, USA.

Dear Sir,

RE: COMMENTS ON CONSULTATION PAPER –
Public Sector Specific Financial Instruments

The Institute of Chartered of Nigeria has considered the above named Consultation Paper and submit comments as follows:

Q1. 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.

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?

RESPONSE/COMMENTS
We agree with the preliminary view in chapter 2 concerning the definition of monetary authority and reserve assets. However, in our jurisdiction,

i. **Section 24 (a) of the Central Bank of Nigeria (CBN) Act 2007 defines external assets to include tangible gold (gold coin or bullion). This is in contrast to paragraph 2.6 of this IPSASB Consultation paper, which describes External assets as "those that have a foreign (nonresident) counterparty, when they have one". It goes on to exclude tangible gold, which it describes as "physical asset", because it does not have a counterparty.**

ii. **Similarly, Section 24 (h) of CBN Act 2007 further includes "investments by way of loan or debenture in an investment bank or development financial institution within..." the country as external assets. However, S.24 h(iii) of the CBN Act clarifies that investment in loan or debenture within the country which form part of the external assets are those denominated in foreign currency.**

Q2. Preliminary View – Chapter 3-1

(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?

RESPONSE/COMMENTS

No, we do not agree with the definition of IPSASB in relation to currency in circulation. This is because the definition seems to assume that every currency issued by or on behalf of the monetary authority is currency in circulation (CIC). However, this is not the case.

It is our opinion supported by the views of our monetary authority (Central Bank of Nigeria) that CIC does not include the value of currency withheld by the monetary authorities from time to time and held in its vault in the course of exercising its monetary control functions.

In our jurisdiction, it is common to find the total value of demand deposits in a commercial bank or other deposit taking financial institution, far exceeding the total value of physical cash held with them. Hence, it follows that the total value of demand deposits should form part of CIC.

Consequently, CIC represents the physical notes and coins held by economic entities other than the monetary authority, 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.

Q3. Preliminary View – Chapter 3-2

(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 (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?

RESPONSE/COMMENTS

We agree with IPSASB's preliminary view in chapter 3-2. Notes and coins serve the same purpose and function in the economy. Consequently their proposed treatment is in agreement with the principles and definition of liability in the conceptual framework.

There is a position that due to the inherent nature of both currency types, coins may be considered an asset due to its intrinsic value as against notes. However, the dichotomy between face value and intrinsic value has been removed with the stoppage of gold standard from 1971. Consequently, a coin, just like a note, once issued creates a legal or non-legal obligation on the monetary authorities to honour that currency at face value, of which it has little or no alternative to avoid.

Q4. Specific Matters for Comment – Chapter 3-1

(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.

RESPONSE/COMMENTS

It is our belief that the appropriate place to recognize Revenue is in the Statement of financial performance. As prescribed by IPSAS 1, revenue is one of the minimum line items that should be on the face of the statement of financial performance. The statement of financial performance recognizes all expenses and revenue of a reporting entity for the reporting period and at the end shows whether the result of the operation results in either profit/surplus or loss/deficit. This position is also consistent with the definition of revenue in the Conceptual Framework. Our position meets the objectives of financial reporting as outlined in IAASB conceptual framework to the extent that the monetary authority is able to recognize and report revenue in line with the principles in the definitions of a liability since the monetary authority has little or no alternative to avoid the obligation once the currency is issued.

Q5. 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?

RESPONSE/COMMENTS

We agree with the definitions.

Q6. 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.

RESPONSE

Yes, entities should 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)

REASONS

We believe the option to designate a measurement basis on the entity's intention in holding monetary gold assets is the right approach.

i. **This is in compliance with IPSAS 29.**

ii. **The separation is consistent with some principles of IFRS 9 (Financial Instruments).**

However, effort should be made as early as possible to ensure that the classification criteria contained in IFRS 9 is also entrenched in this document.

Q7. Specific Matters for Comment – Chapter 4-2

(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).

RESPONSE

i. Market Value

We are of the view that monetary gold assets that are held for trading purposes should be measured at Market Value/Fair Value. This is due to the fact that such measurement provides accurate asset and liability valuation on an ongoing basis to users of financial statements for decision making. It also has the following advantages:

a. It provides timely information that reflects current market conditions to users;
b. Market value accounting limits the reporting entity's ability to manipulate its reported financial performance; and
c. It provides more reliable and transparent information to users.

However, market value also has the following weaknesses:

a. Volatility
b. The market value may not be a fair assessment of performance.

ii. Historical cost

It is our belief that it is appropriate to measure monetary gold assets held for an indeterminate period of time at Historical Cost due to the following advantages it possesses:

a. Objectivity: It ensures that reports on the financial position of the business are objective and can be verified by independent documentary evidence, such as invoice, statement, cheque butt, receipt or voucher.

b. Simplicity: It is a simpler and more cost effective method of asset valuation.

c. Conservative and prudence

d. Consistency: The historical cost convention is consistent with the broad goals and purpose of accounting, recording and reporting the past financial transactions of an entity.

However, the major weakness of the historical cost basis of measurement is that it lacks relevance, which is a vital characteristic of financial reporting for decisions makers.

In conclusion, we support the views of the Board that the appropriate measurement basis for monetary authorities which intends to hold monetary assets for its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets is Market Value. Similarly, we support the decision to measure the monetary assets held for an indeterminate period of time at Historical Cost basis.

Q8. 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?

RESPONSE/COMMENTS

Yes, we agree with the IPSASB's Preliminary View

Q9. 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?

RESPONSE/COMMENTS

Yes, we agree with the IPSASB's Preliminary View

We thank the Board for giving our Institute an opportunity to contribute to the Discussion Paper.

Yours faithfully

for: Registrar/Chief Executive

Ben Ukaegbu, PhD, ACA
Director, Technical & Education