

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Santiago, Chile

Meeting Date: March 10–13, 2015

Agenda Item 6

For:

Approval

Discussion

Information

IPSASs and GFS Reporting Guidelines

Objective of Agenda Item

1. To consider (a) the Issues Paper, and (b) the approach the Task Force has taken to issues management and allocation to the three Government Finance Statistics (GFS) Tracking Tables, and (c) approve the inclusion of the GFS Tracking Tables as agenda Items for future IPSASB meetings.

Materials Presented

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|-----------------|---|
| Agenda Item 6.1 | Issues Paper |
| Agenda Item 6.2 | IPSASs and GFS Reporting Guidelines – Extracts from 2012 Consultation Paper |
| Agenda Item 6.3 | IPSASB Policy Paper – Process for Considering GFS Reporting Guidelines during Development of IPSASs |
| Agenda Item 6.4 | GFS Tracking Table 1 [Draft] – Potential differences that can be resolved now through adopting a GFS-aligned IPSAS option |

Actions Requested

2. The IPSASB is asked to:
 - (a) **Review** the approach the Task Force has taken to issues management and allocation to the three tables on *IPSASs and GFS Reporting Guidelines: Comparison of Recognition and Measurement Requirements*; and
 - (b) **Approve** the inclusion of the three tables as *GFS Tracking Tables* as agenda items for future IPSASB meetings.

Background

1. Alignment with Government Finance Statistics (GFS) is one of the Board's work plan priorities. The first work with the statistical community was through the IMF-led Task Force on Harmonization of Public Sector Accounting between 2003 and 2005. This Task Force published a research report comparing IPSAS and GFS in 2005, which led to the development of IPSAS 22 (Disclosure of Information about the General Government Sector) and influenced the update of the System of National Accounts (for example through the change to capitalization of single-use military equipment).
2. In 2011, the Board approved a new project, the Alignment of IPSASs and Public Sector Statistical Reporting Guidance to further reduce the differences between IPSASs and public sector GFS reporting guidelines. This was taken forward through an IPSASB-chaired Task Force comprising Members, Technical Advisors, the IMF, Eurostat and representatives from national statistical offices. The first output from this project was a Consultation Paper, IPSASs and GFS Reporting Guidelines, which was published in October 2012. Agenda Item 6.2 comprises two extracts from the CP – the Introduction and the Table 1 Summary Comparison of GFS and IPSASs, which provide further background, the history of work to date and the reasons for wanting to remove unnecessary differences between IPSASs and GFS, consistent with the objectives of both reporting systems.
3. Following the consultation, the Task Force has taken work forward in two areas:
 - (a) Development of an IPSASB Policy Paper Process for Considering GFS Reporting Guidelines During Development of IPSASs (Agenda Item 6.3), which was approved by the Board in December 2013 and published in February 2014.
 - (b) Further analysis during 2014 of the comments received on CP Table 2: Issues from 2005 Report – Resolution and Proposals for Consideration.

Task Force Meeting in December 2014

4. In December 2014 the Task Force met in Toronto, with one member joining by teleconference. Task Force members reviewed the table *IPSASs and GFS Reporting Guidelines: Comparison* and agreed that to make the analysis of issues both a resource for the Board's future work, and to make it available for use by the statistical community and other stakeholders, it would need to be published on the IPSASB website, and kept up to date as new issues emerged or further analysis of existing issues was undertaken.
5. There are many possible differences in presentation requirements between IPSASs and GFS, but the information can still be used by both systems if it is recognized and measured in the same way. Therefore the Comparison table should only cover recognition and measurement issues.
6. To focus the Comparison table better for different groups of users, the Task Force decided to split it into three tables as follows:
 - (a) Table 1 – Potential differences that can be resolved now through adopting a GFS-aligned IPSAS option
 - (b) Table 2 – Differences currently needing to be managed that could be resolved in future through an existing IPSASB work-plan project
 - (c) Table 3 – Differences currently needing to be managed that:

- (i) Could potentially be resolved through a future IPSASB project
 - (ii) Could potentially be resolved through a future SNA/GFS revision project
 - (iii) Do not currently appear capable of resolution.
7. The Task Force also decided to propose to the Board that it should include the three tables as an agenda item for future IPSASB meetings in the similar manner as the IFRS tracking table.

New Allocation of Issues from the Comparison Table

8. As stated in paragraph 3, the Task Force decided to split the above table into three tables. This section of the issues paper summarizes the allocation of the issues.

Table 1 – Potential differences that can be resolved now through adopting a GFS-aligned IPSAS option

9. This table includes the following issues:
- (a) The reporting entity (1.A1)
 - (b) Reporting component sectors of the public sector, particularly the general government sector (GGS) (1.A2)
 - (c) Accounting for controlled entities (1.A3)
 - (d) Outside equity interest (1.A4)
 - (e) Borrowing costs (1.B1)
 - (f) Time of recording of tax revenue (1.B2)
 - (g) Investments in associates (Measurement) (1.C1)
 - (h) Measurement of investments in unquoted shares (entities that are not controlled or subject to significant influence) (1.C2)
 - (i) Depreciation vs. consumption of fixed capital (1.C3)

Table 2 – Differences currently needing to be managed that could be resolved in future through an existing IPSASB work-plan project

10. The draft table currently includes the following issues:
- (a) Defence weapons (3.3);
 - (b) Recognition and derecognition of financial instruments: Securitization undertaken by SPEs/SPVs (6.e)
 - (c) Currency on issue/ seigniorage (6.2)
 - (d) “Subscriptions” to international organizations (10.6)
 - (e) IMF Special Drawing Rights (SDRs) (10.13)

Table 3 – Differences currently needing to be managed that:

11. This table is divided into three sub-tables which includes the following issues:

i. Could potentially be resolved through a future IPSASB project

- (a) Determination of:(a) net worth/net assets/ equity (2.2);
- (b) Contributions from owners for commercial government operations (2.2b));
- (c) Distributions payable to owners as holders of equity instruments (2.3a));
- (d) Distributions receivable from controlled entities (2.3b));
- (e) Transaction costs (5.2);
- (f) Inventory (Measurement) (5.5);
- (g) Financial Statements for the Reporting Entity – General (8.1).

ii. Could potentially be resolved through a future SNA/GFS revision project

- (a) Costs of intangibles (3.1);
- (b) Public private partnerships (3.4);
- (c) Decommissioning/ restoration costs (4.2);
- (d) Low interest and interest free loans (5.4);
- (e) Biological assets (that is, living animals and plants) (5.8);
- (f) Extractive Industries (development and production) (5.10);
- (g) Lease liabilities (10.10)

iii. Do not currently appear capable of resolution

- (a) Extractive Industries (exploration and evaluation) (3.2);
- (b) Provisions arising from constructive obligations (4.1);
- (c) Nonperforming loans (5.3)
- (d) Extractive industries (exploration and evaluation) (5.9)
- (e) Prior period adjustments/back casting: voluntary changes in accounting policies (10.14)

Issues removed from the Comparison Table

12. During the December 2014 Task Force meeting several subjects with consistent treatments in IPSASs and GFS Reporting Guidelines were identified. Therefore, the Task Force decided to remove from the comparison table the following issues:

- (a) Employee stock options (ESOs) (4.4)
- (b) Recognition and derecognition of financial instruments: Debt assumption (6.1a))
- (c) Recognition and derecognition of financial instruments: Debt cancellation (6.1b))
- (d) Recognition and derecognition of financial instruments: Debt defeasance (6.1d))

Further Development of GFS Tracking Tables

13. The current draft GFS tracking Table 1 has been included as Agenda Item 6.4 so that the Board can note the format, although it needs to be updated to include references IPSASs 34-38, as well as to address a number of editorial issues. The issues to be included in Table 2 still need to be finalized in the light of decisions made by the Board at the March meeting on its work plan for the next few years. In addition, the Task Force is still examining certain issues in Tables 2 and 3 so these have not been presented to the Board at this meeting. Instead it is proposed that the 3 Tables should appear as an agenda item for all IPSASB meetings from June 2015 onwards under the name *GFS Tracking Tables* in the opening remarks and minutes section.

Action Requested:

1. Members are asked to:
 - (a) **Review** the approach the Task Force has taken to issues management and allocation to the three tables on *IPSASs and GFS Reporting Guidelines: Comparison of Recognition and Measurement Requirements*; and
 - (b) **Approve** the inclusion of the three tables as *GFS Tracking Tables* as agenda items for all future IPSASB meetings.

1. Introduction

- 1.1. Governments produce two key types of ex-post financial information: (a) government finance statistics on the general government sector (GGS) for the purpose of macroeconomic analysis and decision making, and (b) general purpose financial reports (GPFRs) for accountability and decision making at an entity level, including the whole of government reporting entity. This CP focuses on the two reporting frameworks that apply to these two different types of financial information, Government Finance Statistics (GFS) reporting guidelines and IPSASs applicable to accrual based financial statements. There is considerable overlap between these two reporting frameworks.
- 1.2. Significant benefits can be gained from generating IPSAS financial statements and GFS reports using a single integrated financial information system. This will reduce GFS report preparation time, costs, and effort, while improvements can be expected in the source data for GFS reports with flow-on benefits in terms of report quality, including timeliness. Improvements to the understandability and credibility of both types of reports are also likely to result. The aim of this project is to (a) identify unnecessary differences so as to support their resolution; and (b) harmonize on high-quality reporting practices, consistent with the objectives of both reporting systems. Resolution of differences can be approached from both sides, and this CP identifies opportunities for consideration by both the IPSASB and the statistical community. Opportunities to reduce differences must be considered against reporting objectives, the needs of users of the respective financial reports, and the concepts applicable to each reporting framework.
- 1.3. Some differences will remain because they reflect the different objectives and uses of the two reporting frameworks. This CP therefore also considers ways to support the management of remaining differences, so that the majority of the benefits outlined above can still be obtained.

Statistical Bases for Reporting Financial Information

- 1.4. The overarching standards for macroeconomic statistics are set out in the *System of National Accounts* (SNA). The SNA is a framework for a systematic and detailed description of the national economy and its components, including the general government sector and other sectors of the economy. It is under the joint responsibility of the United Nations, the International Monetary Fund (IMF), the Commission of the European Community (EC), the Organisation for Economic Co-operation and Development (OECD) and the World Bank. The latest version of the SNA was issued in 2008. The 2008 SNA updated the 1993 version to address issues brought about by changes in the economic environment, advances in methodological research, and users' needs.
- 1.5. Internationally recognized macroeconomic statistical methodologies are harmonized with the SNA to the extent possible, while remaining consistent with their own specific objectives. The current version of the European Union's legislated rules for national accounts, the European System of Accounts (ESA 95), is consistent with the 1993 SNA. For non-EU government finance statistics, the key source of guidance is the IMF's Government Finance Statistics Manual (GFSM). The latest version of the GFSM, GFSM 2001, is also harmonized with the 1993 SNA. The ESA and the GFSM are both currently under revision to harmonize them with 2008 SNA.

International Public Sector Accounting Standards

- 1.6. International Public Sector Accounting Standards (IPSASs) are developed specifically to address the financial reporting needs of public sector entities around the world. A number of the IPSASs have been developed using International Financial Reporting Standards (IFRSs) as a starting point.

However an analysis is undertaken to identify public sector specific issues and address them in order to ensure that the standards reflect public sector circumstances. In addition, the IPSASB has developed five standards that address topics unique to the public sector. IPSASs apply to GPFs of public sector entities other than Government Business Enterprises (GBEs). GPFs, which include general purpose financial statements, are prepared to achieve the objectives of GPFs, which are to provide information about the entity that is useful to users for accountability and decision-making purposes.

- 1.7. A close relationship exists between the approaches used in IPSASs and GFS reporting guidelines. A government's preparation of financial statistics that meet GFSM or other GFS reporting guidelines is facilitated by applying high-quality accrual accounting standards such as IPSASs. This is because application of a comprehensive and internationally harmonized accrual accounting framework greatly improves the source data necessary for compiling these reports. Source data quality improvements result from (a) applying IPSAS requirements to the recording of balances and transactions, (b) using information systems designed to meet data requirements consequential on application of IPSASs, and (c) applying an independent audit to both the information systems and resulting information.

Harmonization Initiatives

Task Force on Harmonization

- 1.8. The Task Force on Harmonization of Public Sector Accounting (TFHPSA) was created in 2003. This was the first formal initiative that attempted to harmonize accounting standards and GFS reporting guidelines. The TFHPSA was sponsored by the IPSASB and the IMF, with support from Eurostat and national government and statistical office representatives. The TFHPSA's major outputs were (a) proposals for changes to public sector statistics to inform the 2008 update of the SNA, and (b) a research report, issued in 2005. The research report, *International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence* (the 2005 Research Report), systematically documented similarities and differences between the two reporting frameworks.¹ The TFHPSA's convergence recommendations with respect to financial reporting standards focused on changes to IPSASs.
- 1.9. Appendix A expands on this introduction, providing further information on reductions in differences between IPSASs and GFS reporting guidelines since the *2005 Research Report*, through:
 - IPSAS developments, including issuance of IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, in 2006; and
 - Statistical reporting developments, including changes implemented through the SNA, ESA, and GFSM revisions.
- 1.10. Since 2005, substantial progress has been made on the recommendations included in the TFHPSA's research report. That progress is summarized in Section 3 of this CP, with further detail provided in Appendix B. Appendix A also describes ongoing IPSAS developments, including the IPSASB's Conceptual Framework Project. The 2008 SNA summarized the situation as follows:

...during the 2008 [SNA] revision, consultation on IASB standards and their counterpart for public sector accounting standards (the International Public Sector Accounting Standards Board, IPSASB) has been extremely beneficial.

¹ Further information on the 2005 Research Report and the TFHPSA is provided in Appendix A.

Alignment Task Force

- 1.11. In 2011, the IPSASB approved a new project, the *Alignment of IPSASs and Public Sector Statistical Reporting Guidance*, to further reduce the differences between IPSASs and public sector GFS reporting guidelines.² This CP is the first formal output from that project. The project has been taken forward by a task force (hereafter “the Task Force”), which has representation from both the IPSASB and the statistical community, including international organizations such as the IMF and Eurostat and country representatives from Brazil, the United Kingdom, South Africa, and Switzerland.

² The project brief is available from the project section of the IPSASB website at www.ipsasb.org.

Table 1 Summary Comparison of GFS and IPSASs

There is considerable commonality between IPSASs and GFS reporting guidelines. There are also some important conceptual differences within each area below. Presentation and terminology differences are described later in this section.

Government Finance Statistics

IPSASs

Objectives

Evaluate economic impact: Government finance statistics are used to (a) analyze and evaluate the outcomes of fiscal policy decisions, (b) determine the impact on the economy, and (c) compare national and international outcomes. The GFS reporting framework was developed specifically for public sector input to other macroeconomic datasets.

Evaluate financial performance and position: General purpose financial statements are used to evaluate financial performance and financial position, hold management accountable, and inform decision making by users of the general purpose financial statements.

Reporting Entity

Institutional units and sectors: The statistical reporting unit is an institutional unit, defined as an entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities in its own name. The reporting entity may be an institutional unit, but the primary focus is on a group of institutional units (consolidated sector or subsector). Control and the nature of economic activities determine consolidation and the scope of the reporting entity. The General Government Sector does not include institutional units primarily engaged in market activities.

Economic entity and consolidation: The reporting unit for financial statements is an economic entity, defined as a group of entities that includes one or more controlled entities. Control is the main criterion that determines consolidation. The whole of government reporting entity, at the highest level of consolidation, may include, in addition to government departments, sub-national bodies such as state governments, and government owned businesses that primarily engage in market activities.

Recognition Criteria

The key difference relates to some liabilities.

Economic events recognized: GFS recognize economic events on the accrual basis of recording when economic value is created, transformed, exchanged, transferred, or extinguished. To maintain symmetry for both parties to the transaction, some provisions recognized in IPSAS reporting may not be recognized under GFS reporting. While not recognized, those provisions may instead be disclosed as GFS memorandum items as is the case, for example, with exposures to explicit one-off guarantees and provisions for doubtful debts.

Past events with probable outflows recognized: IPSASs recognize liabilities, including provisions, when:

- A past economic event has taken place;
- The amount can be reliably estimated; and
- Future outflows are probable.

These factors allow, in certain cases, recognition of items that do not involve a counterparty recognizing a symmetrical amount. For example, so long as criteria are met, IPSASs require recognition of restructuring provisions.

Valuation (Measurement)

Current market prices: Current market prices are used for all flows, and stocks of assets/liabilities, but allowance is made for the use of alternative valuation methods where an active market does not exist.

Fair value, historic cost and other bases: Fair value, historic cost or other bases are used for the measurement of assets and liabilities. Similar assets and liabilities must be valued consistently and the bases disclosed. Where an entity reports an item using historic cost, IPSASs often encourage disclosure of fair value if there is a material difference between the reported cost and the item's fair value. Often IPSASs also allow entities to choose between fair value and historic cost.

Revaluations and Other Value Changes

Record all revaluations and changes in volume in the Statement of Other Economic Flows: Separating all these "other economic flows" is viewed as useful for fiscal analysis, on the basis that revaluations and changes in volume do not represent fiscal policy decisions directly within the control of government. GFS distinguishes between value changes and volume changes.

Realized and unrealized gains and losses: Some gains or losses due to revaluations or changes in volume of assets are reported in the Statement of Financial Performance, while others are reported directly in the Statement of Changes in Net Assets/Equity. Some other gains and losses, for example market value changes for PP&E carried at historic cost, are not reported at all.

IPSASB Policy Paper
February 2014

*International Public Sector Accounting Standards
Board*

**Process for Considering GFS
Reporting Guidelines during
Development of IPSASs**

This document was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective the IPSASB sets International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSASs relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSASs RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

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PROCESS FOR CONSIDERING GFS REPORTING GUIDELINES DURING DEVELOPMENT OF IPSASs

Introduction

1. The aim of this document is to set out the International Public Sector Accounting Standards Board's (IPSASB's) process for considering Government Finance Statistics (GFS) reporting guidelines¹ during the development of International Public Sector Accounting Standards (IPSASs).
2. The process describes how the IPSASB will consider scope to reduce differences between IPSASs and GFS reporting guidelines during:
 - (a) Development of its work plan;
 - (b) Development of new IPSASs; and
 - (c) Revisions to existing IPSASs.
3. Following this process during the revision and development of IPSASs will give effect to the IPSASB's view that:
 - (a) Unnecessary differences between GFS reporting guidelines and IPSASs should be avoided; and,
 - (b) The reduction of unnecessary differences is an important factor in the review and development of IPSASs.
4. This process aims to address both existing differences and possible future differences, which could arise through the development of a new IPSAS to address a previously unaddressed financial reporting topic, or revisions to an existing IPSAS.
5. The IPSASB uses professional judgment in the development of new standards and improvements to existing standards. The IPSASB application of professional judgment occurs during (a) development of a consultation paper and/or an exposure draft, and (b) consideration of responses received during consultation, leading to the issuance of a final standard. As part of the IPSASB's established due process, reasons for the IPSASB's conclusions are documented in the related Basis for Conclusions.
6. This process will be regularly assessed to determine if any changes are needed for its enhancement.

¹ The overarching standards for macroeconomic statistics are set out in the *System of National Accounts (SNA)*. Internationally recognized macroeconomic statistical methodologies are harmonized with the SNA to the extent possible, while remaining consistent with their own specific objectives. GFS reporting guidelines include the European Union (EU)'s legislated rules for national accounts—the European System of Accounts (ESA)—and the IMF's Government Finance Statistics Manual (GFSM), which is the key source of guidance for non-EU government finance statistics.

IPSASB Support for Convergence with Statistical Bases of Financial Reporting

7. The IPSASB's support for reduction of differences is expressed in the Preface to the IPSASB's *Handbook of International Public Sector Accounting Standards*, which states the IPSASB's objective as follows:

"The objective of the International Public Sector Accounting Standards Board (IPSASB) is to serve the public interest by developing high-quality accounting standards and other publications for use by public sector entities around the world in the preparation of general purpose financial reports.

This is intended to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management and decision making²."

8. The Preface then highlights IPSASB support for the reduction of differences—termed "convergence of accounting and statistical bases of financial reporting"—as one part of the IPSASB's pursuit of its objective:

"In pursuit of this objective, the IPSASB supports the convergence of international and national public sector accounting standards and the convergence of accounting and statistical bases of financial reporting where appropriate; and also promotes the acceptance of its standards and other publications³."

The Role of the IPSASB's Conceptual Framework and IFRS Convergence

9. The IPSASB's Conceptual Framework is fundamental to its standards development. IPSAS related proposals that reduce differences between IPSASs and GFS reporting guidelines will be reviewed to ensure that they are consistent with the Conceptual Framework—see paragraph 12 below.
10. The IPSASB's *"Process for Reviewing and Modifying IASB Documents"* sets out the process that the IPSASB follows when considering International Accounting Standards Board (IASB) documents for convergence, including determining whether public sector issues warrant departures from the IASB document. Step 1 of that process includes consistency with the statistical bases as one factor for consideration when making decisions. This document is intended to complement and support that process, rather than conflict with it in any way.

Scope to Reduce Differences

11. There is considerable overlap between IPSASs and GFS reporting guidelines. Both reporting frameworks are concerned with (a) financial, accrual-based information, (b) a government's assets, liabilities, revenue, and expenses, and (c) comprehensive information on cash flows. Because of this overlap, there is scope to reduce differences while remaining consistent with both the Conceptual Framework and International Financial Reporting Standards (IFRS) requirements.
12. GFS reporting guidelines and IPSASs have different objectives. Although the two sets of financial information necessary to meet these different objectives have many similarities, the different objectives do result in some fundamental differences on how, what and where information is reported. In considering scope to reduce differences the IPSASB will remain true to the objectives of financial reporting⁴. Where differences appear to warrant referral to the statistical community for

² Paragraphs 5–6, Preface to the IPSASB's *Handbook of International Public Sector Accounting Standards*

³ Paragraph 6, Preface to the IPSASB's *Handbook of International Public Sector Accounting Standards*

⁴ The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of general purpose financial reports (GPFs) for accountability purposes and for decision-making purposes (hereafter referred to

its consideration, the IPSASB recognizes that the statistical community's consideration of issues will be in light of the objectives of the GFS reporting framework⁵.

13. The IPSASB notes that GFS reporting guidelines aim to be consistent with the SNA. The SNA is under the joint responsibility of the United Nations, the International Monetary Fund (IMF), the Commission of the European Community (EC), the Organisation for Economic Co-operation and Development (OECD) and the World Bank. Revision to the SNA is a major endeavor. Scope to reduce differences through changes to the GFS reporting guidelines largely depends on the changes identified not adversely affecting the guidelines' consistency with the SNA. Revisions to the SNA may be possible in the longer term.

Tracking Issues–Table of Differences Updated For Changes

14. A table of the main differences between IPSASs and GFS reporting guidelines will be maintained to facilitate the work plan consideration described below. The table will include assessments of whether differences should be resolved through changes in IPSASs or changes in the GFS reporting guidelines. The table will be updated as necessary, on an on-going basis. Updating could be to reflect progress made on differences or to include further differences that have been identified.

IPSASB Work Plan and Reduction of Differences

15. The IPSASB will consider the reduction of differences between IPSASs and GFS reporting guidelines during development of its work plan. The IPSASB's consideration will include appropriate responses to a difference, one of which could be referral to the statistical community for its consideration of whether a difference can be resolved through changes to the GFS reporting guidelines.
16. The IPSASB will gain input from its IMF and Eurostat Observers and from IPSASB Members in order to identify:
 - (a) Which proposed projects have the potential to reduce differences;
 - (b) Possible other projects with potential to reduce differences;
 - (c) Scope to address differences within existing projects and/or the biennial improvements project; and,
 - (d) Differences that could be referred to the statistical community for consideration of scope to address differences through changes to the GFS reporting guidelines.

Biennial Improvements Projects

17. Differences that can be resolved through relatively minor revisions to existing IPSASs may be considered for inclusion in one of the IPSASB's biennial improvements projects. This would only be

as "useful for accountability and decision-making purposes"). [Paragraph 2.1, *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.]

⁵ GFS reports are used to (a) analyze fiscal policy options, make policy, and evaluate the impact of fiscal policies, (b) determine the impact on the economy, and (c) compare fiscal outcomes nationally and internationally. The focus is on evaluating the impact of the general government and public sector on the economy, and the influence of government on other sectors of the economy. The GFS reporting framework was developed specifically for public sector input to other macroeconomic statistics, although a range of countries adopt GFS reporting for their fiscal reporting, and for measuring compliance with fiscal rules.

considered for proposed revisions that are minor, consistent with the Conceptual Framework, and do not conflict with existing IPSASs, including those converged with IFRSs. This could be, for example, an amendment to clarify an IPSAS so that its application is consistent with the IPSASB's intention. As part of the IPSASB's normal due process the IPSASB's considers staff proposals with respect to revisions for inclusion in a biennial Improvements Exposure Draft. The IPSASB will decide whether a proposed revision to reduce differences with GFS reporting guidelines should be considered "minor".

IPSAS Projects and Reduction of Differences

18. During the course of each IPSAS project IPSASB technical staff and the IPSASB will consider whether there is scope for the project to address differences between IPSASs and GFS reporting guidelines. The process they will follow is summarised in diagram 1. Although the table of main differences (see paragraph 13) will be the starting point for this consideration, staff will also consider whether there are differences not captured in that table.
19. Differences identified will then be reviewed to determine whether standards level action is appropriate. (This is discussed below.) Where such differences exist staff will ensure that they are brought to the IPSASB's attention through identification in the appropriate IPSASB meeting paper(s).
20. Project staff will also consider the need to avoid introducing new differences during either (a) revisions to an existing IPSAS, or (b) development of an IPSAS to address topics that have not previously been addressed by an IPSAS. New differences could potentially be introduced, for example, when (a) removal of a GFS-aligned option in an IPSAS is considered, or (b) a new IPSAS is developed for a topic for which GFS reporting guidelines already exist. Where a potential new difference is identified, the project staff will ensure that this is brought to the IPSASB's attention through identification in the appropriate IPSASB meeting paper(s).

Factors to Consider

21. Whether or not an IPSAS project removes a difference will depend on the following factors:
 - (a) Whether or not the difference is a fundamental difference (discussed below);
 - (b) The extent to which the GFS treatment is consistent with
 - (i) The Conceptual Framework,
 - (ii) Existing IPSASs, and,
 - (iii) IFRS convergence;
 - (c) The IPSASB's consideration of the benefits to be gained from removing the difference and the appropriateness of the proposed IPSAS treatment;
 - (d) The IPSASB's consideration of feedback from constituents; and,
 - (e) The IPSASB's assessment of whether the difference should be addressed through an IPSAS or whether some other response would be more appropriate.
22. In considering the factors listed in paragraph 21 a case-by-case approach will be applied. This recognizes that the relative importance of these factors can vary depending on the issue under

consideration. Where there is a conflict between any of the factors, the IPSASB will take a decision based on the circumstances of the case.

23. With respect to point (e), one possible other response is for the IPSASB to refer a difference to the statistical community for consideration of whether it can be addressed through changes to the GFS reporting guidelines. Before making such a referral the IPSASB will gain input from its IMF and Eurostat Observers to inform consideration of the appropriateness of such a response. In some cases the most appropriate response to a difference may be to ensure that guidance is available on how to manage the difference.

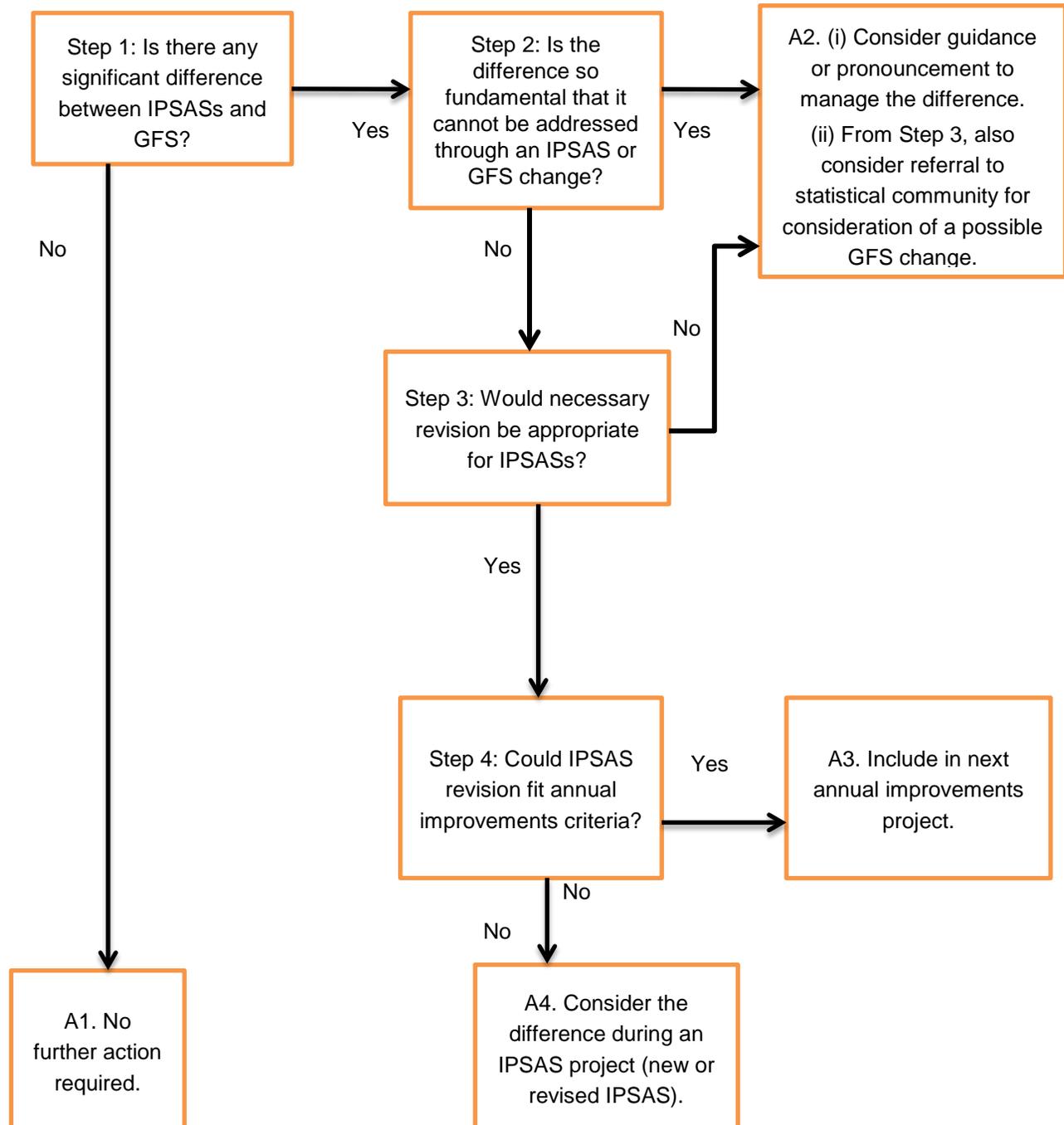
Some Differences May Not Require Standards Level Consideration

24. “Fundamental differences” arise from underlying conceptual differences that cannot be resolved through changes to either IPSASs or GFS reporting guidelines. These differences are expected to continue and will need to be managed. Fundamental differences generally do not indicate a need for standards level action.
25. An important aim of the analysis of differences is to support public sector entities’ ability to use a single integrated financial information system to generate both IPSAS financial statements and GFS reports⁶. Consistent with this aim, differences are classified in terms of whether they (a) can be managed either through choice of accounting policy option or systems design, or (b) can be addressed through changes in either IPSASs or GFS reporting guidelines. Some problematic differences arise from the way that a standard or guideline is applied, rather than in the standards or guidelines themselves.
26. Where alternative treatments (options) in an IPSAS allow a preparer to choose an option that is aligned with GFS reporting guidelines, no amendment to the IPSAS is necessary in order to align the treatments available under the two reporting frameworks. (As section 7 below notes, guidance that identifies those GFS–aligned options can help preparers to manage differences.)
27. In the medium term non-fundamental differences which can be managed may be addressed through provision of guidance on how to manage them. However they should still be noted as differences and, in the longer term, there should be consideration of opportunities to address them through changes either to IPSASs or GFS reporting guidelines.
28. Other differences may not be high priorities for standards level action, because they can be addressed in other ways. Differences related to information presentation can be addressed through the design of an entity’s information system. Appropriate classification of data allows presentation appropriate to both IPSAS financial statements and GFS reporting guidelines. Terminology differences do not involve differences of substance, and can be addressed through knowledge sufficient for preparers to translate terms from one reporting framework into those used in the other framework. This is likely to involve financial accountants working with their statistician colleagues to clarify the meaning of different terms.

⁶ Benefits from such an integrated financial information system include the reduction of GFS report preparation time, costs, and effort, along with improvements in the source data for these reports, with flow-on benefits in terms of report quality, including timeliness. Improvements to the understandability and credibility of both types of reports are also likely to result.

Diagram 1

Process for Considering Differences between IPSASs and GFS Reporting Guidelines



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IPSASs AND GFS REPORTING GUIDELINES: COMPARISON OF RECOGNITION AND MEASUREMENT REQUIREMENTS**TABLE 1 – Potential differences that can be resolved now through adopting a GFS-aligned IPSAS option**

1. The table is organized in four sections according to the following groupings used in Table 1 of the IPSASB 2012 Consultation Paper *IPSASs and GFS Reporting Guidelines* – Summary Comparison of GFS and IPSASs <http://www.ifac.org/sites/default/files/publications/files/IPSASB-GFS-Policy-Paper.pdf>, that is also used in Appendix 6 of GFSM 2014:
 - A. Reporting entity
 - B. Recognition criteria
 - C. Measurement (valuation)
 - D. Revaluations and other value changes
2. Each section starts with the text from Table 1, and then for each individual issue the second and third columns quote the relevant guidance from each framework. The fourth column provides the issue reference in the 2005 research report matrix produced by the Task Force for Harmonisation of Public Sector Accounting <https://www.ifac.org/sites/default/files/publications/files/international-public-sector.pdf>. The fifth column provides the issue reference in the 2012 CP Table 2 <http://www.ifac.org/sites/default/files/publications/files/IPSASs%20and%20GFS%20Guidelines%20FINAL%20October%2016%202012.pdf>
3. Issues in the original 2005 matrix that have been resolved are not dealt with in the table. Other issues in the 2005 matrix do not always fit within these four groups. The Matrix's "Outside Ownership Relationships" and "Financial Instruments" categories have been included within "Reporting Entity" and "Recognition Criteria" respectively. "Revaluations and other value changes" includes various financial statement presentation issues in the 2005 matrix. The 2005 matrix also included presentation issues which have been excluded from this table as it focuses on Recognition and Measurement requirements.

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| Issue | IPSAS Treatment as of October 30, 2014 | Treatment in <i>GFSM</i> <i>ESA/EMGDD/SNA</i> | 2005 Report Ref | 2012 CP Ref | Comments / GFS-aligned IPSAS option |
|---|--|---|-----------------------|-----------------------|---|
| A) REPORTING ENTITY | | | | | |
| | Economic entity and consolidation: The reporting unit for financial statements is an economic entity, defined as a group of entities that includes one or more controlled entities. Control is the main criterion that determines consolidation. The whole of government reporting entity, at the highest level of consolidation, may include, in addition to government departments, sub-national bodies such as state governments, and government owned businesses that primarily engage in market activities. | Institutional units and sectors: The statistical reporting unit is an institutional unit, defined as an entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities in its own name. The reporting entity may be an institutional unit, but the primary focus is on a group of institutional units (consolidated sector or subsector). Control and the nature of economic activities determine consolidation and the scope of the reporting entity. The General Government Sector does not include institutional units primarily engaged in market activities. | 1 | Ch.2 | |
| 1.A1 The reporting entity | IPSAS 22, <i>Disclosure of Financial Information About the General Government Sector</i> IPSAS 1, <i>Presentation of Financial Statements</i> IPSAS 6, <i>Consolidated Financial Statements and Accounting for Controlled Entities</i> For financial reporting purposes, an economic entity “is a group of entities comprising the controlling entity and one or more controlled entities”. A whole of government report prepared under IPSASs for a central government of a country is not the total public sector for that country, to the extent that other levels of government are not controlled by the central government. | SNA 4.127-4.148 1.1 A statistical unit is an institutional unit, i.e. an (economic) entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities. (<i>GFSM 2014</i> para 2.22) The reporting entity may be an institutional unit or a group of institutional units. The scope of the reporting entity is not necessarily determined by the notion of control. <i>SNA</i> and <i>ESA</i> same as <i>GFSM 2014</i> . However, <i>European System of National Accounts 2010 (ESA 2010)</i> has developed rules, for example, for identifying public corporations. | 1.1 | A1 B1 and D1 | By prescribing disclosure requirements for governments that elect to present information about the General Government Sector (GGS) IPSAS 22 provides the guidance necessary for Governments to present the analysis necessary for GFS purposes within their IPSAS-compliant financial statements. |
| 1.A2 Reporting component sectors of the public sector, particularly the general government sector (GGS) | A segment is a “distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity’s past performance in achieving its objectives and for making decisions about the future allocation of resources”. Segments are disclosed as a note in the GPFSS. | SNA 4.127-4.148: 1.2 The total economy of a country can be divided into sectors. A sector is a group of institutional units that are resident in the economy. The 5 sectors are: general government, nonfinancial corporations, financial corporations, non-profit institutions serving households, and households. The public sector (for the whole | 1.2 | B1 Ch. 2 | See comments on IPSAS 22 under 1.A1. Active IPSASB projects with possible implications for this topic: <ul style="list-style-type: none"> • Interests in Other Entities (definition of control), and • Government Business Enterprises |

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|---|--|--|-----------------------|-------------------|---|
| | | <p>economy or a particular government's jurisdiction) consists of the GGS, public nonfinancial corporations (PNFC) and financial corporations (PFC) subsectors. The GGS and PNFCs can be consolidated to get the nonfinancial public sector. (GFSM Chapter 2) SNA and ESA same as GFSM. However, ESA has developed some rules, for example, for identifying public corporations to be classified in government.</p> | | | <p>(identification of entities outside of GGS) Potential project with implications:</p> <ul style="list-style-type: none"> • Revisions to IPSAS 18 <i>Segment Reporting</i> • Disclosure of Financial Information about the GGS—IPSAS 22 <p>(Issue: Differences between the narrative on "control" in IPSAS 6 and the control indicators for the SNA definition. This issue was considered during development of ED49.)</p> |
| <p>1.A3 Accounting for controlled entities</p> | <p>1.3 In IPSAS 6 "<i>Consolidated Financial Statements and Accounting for Controlled Entities</i>", consolidated Financial Statements are "the financial statements of an economic entity presented as those of a single entity". Exceptions (IPSAS 6, paras 16 and 22) Combination, eliminations and treatment of unrealized losses. (IPSAS 6 paras 39-52) Controlling entity's separate financial statements: (IPSAS 6 para 53)</p> | <p>1.3 Consolidation involves the elimination of all transactions and debtor-creditor relationships that occur among the units being consolidated. (GFSM 2014 paras 3.153-3.166) In the GGS's financial statements the investment in controlled entities in other sectors should be valued at the current prices of the shares on stock exchanges for traded shares. For equity held in public corporations with untraded shares or quasi-corporations it is equal to the total value of a corporation's and quasi-corporation's assets less the total value of its other liabilities (GFSM 2014 para 7.229) <i>SNA 2.69 and ESA 1.107-1.08 As a matter of principle, flows and stocks between constituent units within subsectors or sectors must not be consolidated. However, consolidated accounts may be built up for complementary presentations and analyses. Specifically, consolidation is stated to be useful, for example, for the government sector as a whole, thus showing the net relations between government and the rest of the economy.</i></p> | 1.3 | B1 D1 B6 | <p>See comments on IPSAS 22 under 1.A1. (It appears that the new IPSAS standards under development do not have any significant impact on this issue, but to be discussed if the allowance for using the "equity method" in some circumstances could assist convergence in some circumstances.)</p> |

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|--|---|---|-----------------------|-------------------|--|
| <p>1.A4 Outside equity interest</p> | <p>IPSAS 1 “Presentation of Financial Statements” and IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities</p> <p>See IPSAS 6 para 50 and IPSAS 1 paras 39 (c), 89 and 101</p> <p>IPSAS recognizes outside equity interest as net assets/equity.</p> | <p>GFSM 2014 7.165 –177, which adopts what is commonly referred to as an entity view. GFSM 2014 recognizes outside equity interest as a liability (listed equity at market values and other equity and investment fund shares at net asset value); whereas IPSASs recognize it as net assets/equity.</p> <p>SNA and ESA: Same as GFSM.</p> | 2.1 | D9 | <p>In GFS equity is presented as a sub-item of liabilities while in IPSAS equity is separately presented. Nevertheless, under both systems it is always possible to identify equity in the financial statements.</p> |
| B) RECOGNITION CRITERIA | | | | | |
| | <p>Past events with probable outflows recognized: IPSASs recognize liabilities, including provisions, when:</p> <ul style="list-style-type: none"> • A past economic event has taken place; • The amount can be reliably estimated; and • Future outflows are probable. <p>These factors allow, in certain cases, recognition of items that do not involve a counterparty recognizing a symmetrical amount. For example, so long as criteria are met, IPSASs require recognition of restructuring provisions.</p> | <p>Economic events recognized: GFS recognize economic events on the accrual basis of recording when economic value is created, transformed, exchanged, transferred, or extinguished. To maintain symmetry for both parties to the transaction, some provisions recognized in IPSAS reporting may not be recognized under GFS reporting. While not recognized, those provisions may instead be disclosed as GFS memorandum items as is the case, for example, with exposures to explicit one-off guarantees and provisions for doubtful debts.</p> | | | <p>The key difference relates to certain types of liabilities.</p> |
| <p>1.B1 Borrowing costs</p> | <p>The benchmark treatment in IPSAS 5 <i>Borrowing Costs</i> requires immediate expensing of borrowing costs. Para 6 states: “Borrowing costs may include:</p> <p>(a) Interest on bank overdrafts and short-term and long-term borrowings;</p> <p>(b) Amortization of discounts or premiums relating to borrowings;</p> <p>(c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings;</p> <p>(d) Finance charges in respect of finance leases; and</p> | <p>SNA 7.113 -7.126 “Borrowing costs” is not a classification item in <i>GFSM 2001</i>. These costs are broken down into their constituent components and each component is treated separately. If an intermediary is involved, all service charges, fees, commissions, and similar payments for services provided in carrying out transactions are expensed. If there is no intermediary, i.e., the government is dealing directly with the lender, the borrowing costs are likely to be inseparable from interest – an expense also, but a different classification within expense.</p> <p>For securities issued at a discount or</p> | 10.4 | A5 | <p>Aligned treatment: Choose the “expense borrowing costs” option in IPSAS 5.</p> <p>(Also see Group 2: Consultation project-no link: See page 28 of Strategy CP; Borrowing Costs IPSAS 5.)</p> |

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|--|---|--|-----------------------|-------------------|---|
| | (e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.” | premium, the difference between the issue price and price at maturity is treated as interest accruing over the life of the securities, once again, as an expense. <i>SNA and ESA: Same as GFSM.</i> | | | |
| 1.B2 Time of tax revenue recording | | | 10.15 | No ref. | Aligned treatment: Following the release of IPSAS 23, in practice there is no difference. (In the EU many countries use a “time adjusted cash” approach to approximate an accrual approach. Experience shows that this differs from revenues recorded in public accounts, even if those jurisdictions follow accrual principles.) |
| C) MEASUREMENT (VALUATION) | | | | | |
| 1.C1 Investments in associates (Measurement) | <p>IPSAS 7, <i>Accounting for Investments in Associates</i>, requires fair value when an intention to sell an investment within 12 months exists. IPSAS 7 requires:</p> <ul style="list-style-type: none"> • Application of the equity method of accounting in consolidated financial statements except where the investment is acquired and held exclusively with a view to its disposal in the near future, in which case it should be accounted for under the cost method; and • In the financial statements of the investor (other than consolidated financial statements), an investment in an associate is accounted for either by the equity method or as an investment. However, if the investment is held for resale it is accounted for by either the cost method or as investment. (IPSAS 17 paras 18, 23-28) <p>The equity method requires that the investment is initially recorded at cost and the carrying amount is increased or decreased to recognize the investor’s share of net surpluses or deficits of the investee after the date of acquisition. Distributions received from an investee reduce</p> | <p>SNA 13.16 – 13.25: Information from markets may be used to value similar securities that are not traded, by analogy. Other methods are to use net asset value or directors’ valuation. (<i>GFSM 2014</i> para 7.24-33) Changes in market value of traded shares and changes in the investor’s share of the corporation’s net worth are recorded as other economic flows.</p> <p><i>SNA and ESA: Same principle as GFSM.</i></p> | 5.6 | B6 | <p>See comments on IPSAS 22 under 1.A1.</p> <p>Active IPSASB projects with possible implications for this topic: Interests in Other Entities (definition of control),</p> <p>As noted above, the new IPSAS standards should be analyzed in terms of how the equity method works.</p> |

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|---|---|--|-----------------------|-------------------|---|
| | the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for alterations in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been included in the statement of financial performance. (IPSAS 7 para 11) | | | | |
| 1.C2 Measurement of investments in unquoted shares (entities that are not controlled or subject to significant influence) | IPSAS 29, IPSAS 1 <i>Investments in unquoted shares – measurement</i> : IPSAS 29 requires fair value where there is a reliable measure, otherwise, cost. In practice fair value is used in the majority of cases. <i>Investments in unquoted shares – presentation of gains and losses from remeasurement.</i> | SNA 13.70-13.71; SNA 12.73 – 12.121; <i>Measurement</i> : The SNA 2008 adopts a “current market price” (fair value) hierarchy across all assets. Information from markets may be used to value similar securities that are not traded, by analogy. Other methods are to use net asset value or directors' valuation. (<i>GFSM 2014</i> para 7.24-33) SNA and ESA: Same as <i>GFSM</i> . | 5.7 | B8 D4 | Aligned treatment in respect of Measurement. Presentation (classification) issue remains. |
| 1.C3 Depreciation vs. consumption of fixed capital | | | | No ref | If assets are valued at market value and if the useful life of the asset is determined based on economic life and not on some tax rule or company law, depreciation will be the same than consumption of fixed capital. A difference may exist depending on the choice of accounting policy employed. |