

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: New York, USA

Meeting Date: March 12–15, 2024

Agenda Item 12

For:




- ☐ Approval
☒ Discussion
☐ Information

PRESENTATION OF FINANCIAL STATEMENTS

Project summary	This project aims to enhance the communication effectiveness of financial information reported in general purpose financial statements by developing a new IPSAS to replace IPSAS 1, <i>Presentation of Financial Statements</i> . The project is in the Consultation Paper (CP) development phase.	
Project staff lead	Anthony Heffernan, Principal	
Task Force members	Ian Carruthers, IPSASB Chair (Task Force Chair)	
Meeting objectives	Topic	Agenda Item
Project management	Presentation of Financial Statements Dashboard	12.1.1
	Decisions up to Previous Meeting	12.1.2
	Instructions up to Previous Meeting	12.1.3
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Items requiring feedback at this meeting	Presentation of Financial Statements – Project Management	12.2.1
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	General Presentation Requirements – Additional Comparative Information	12.2.3
	General Presentation Requirements – Offsetting	12.2.4
	General Presentation Requirements – Fair presentation and compliance with IPSASs	12.2.5
	Breakout Session Discussion – Presentation of Revenue and Expense Items Outside the Surplus or Deficit	12.2.6

PRESENTATION OF FINANCIAL STATEMENTS: CONSULTATION PAPER DASHBOARD

The table below summarizes the topics to be addressed in the Consultation Paper (CP) and illustrative Exposure Draft (ED) phase of the project, ordered based on the expected sequence of the ED.

	Past meetings	Mar 2024	Jun 2024	Sept 2024	Dec 2024	Mar 2025	Jun 2025
Overall Project Management							
Completion of research and scoping phase	✓						
Approval of Project Brief	✓						
Review and approval of CP and Illustrative ED							
Discussion topics for the development of CP and Illustrative ED							
CP Introductory chapters							
Objectives							
Scope							
Definitions							
Purpose of Financial Statements							
Components of financial statements							
General principles of presentation ¹							
Materiality							
Statement of Financial Position							
Statement of Financial Performance							
Other Comprehensive Revenue and Expense							
Statement of Changes in Net Assets/Equity							
Notes to the financial statements							
Alternative presentation approaches							
Disclosure of non-IPSAS performance measures							

Legend			
	Breakout group discussion		Page-by-page Review
	Planned IPSASB Discussion	✓	Task Completed

¹ This includes responsibility for financial statements, fair presentation and compliance with IPSAS, reporting period and frequency of reporting, consistency of reporting and comparatives, going concern, aggregation and disaggregation, and offsetting.

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decisions	References
September 2023	Project Brief approved by IPSASB	Project Brief
December 2023	<ol style="list-style-type: none">1. Different presentation approaches in IPSAS should be explored through the CP phase of the project. This would allow for increased flexibility to improve the understandability of financial statements based on local jurisdictional considerations.2. Draft Chapter 1 of the CP appropriately reflected the project objectives, key drivers, scope, and reasons for conducting the project.3. Draft Chapter 2 of the CP appropriately explains the purpose of financial statements based on the Conceptual Framework.	<p>The different presentation approaches will be considered at the June and September 2024 IPSASB Meetings.</p> <p>Updated drafting to be considered by the Task Force.</p> <p>Updated drafting to be considered by the Task Force.</p>

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
December 2023	<ol style="list-style-type: none">1. Engage with users through focus groups/roundtables to inform views and support the development of the different presentation approaches to be explored in the CP.2. Update Chapters 1 and 2 of the draft CP for comments received through IPSASB deliberations, including reducing the length to improve the readability of the chapters to the external reader.3. Consider feedback from IPSASB members, Technical Advisors, and observers received during the break-out sessions to inform the future development of related topics in the CP.	<ol style="list-style-type: none">1. In progress, the development of the different presentation approaches will be informed by the Task Force and other focus groups/roundtables as the project progresses.2. Updated drafting to be considered by the Task Force.3. In progress, the feedback from the break-out sessions has been captured and will be used to inform future discussions.

**PRESENTATION OF FINANCIAL STATEMENTS:
PROJECT ROADMAP**

Meeting	Completed Discussions / Planned Discussions:
December 2022	<ul style="list-style-type: none"> • Discussion of project background • Discussion on outcomes of scoping and research activities
June 2023	<ul style="list-style-type: none"> • Development of Project Brief
September 2023	<ul style="list-style-type: none"> • Education Session on IPSAS 22 and IPSAS 24 — • Approval of Project Brief, <i>Presentation of Financial Statements</i> • Project Management Update
December 2023	<ul style="list-style-type: none"> • Board feedback on draft opening chapters of CP: <ul style="list-style-type: none"> ○ Project Overview; and ○ Purpose of Financial Statements • Board discussion on the concept of providing optional approaches for presenting the financial statements • Break-out session discussions on: <ul style="list-style-type: none"> ○ Categories and sub-totals in the performance statement ○ Management-defined performance measures
Mar – Sep 2024	Board discussion on issues
December 2024	Review of draft CP and illustrative ED
March 2025	Page-by-page review of the complete draft CP and illustrative ED
June 2025	Approval of CP and Illustrative ED

Presentation of Financial Statement – Project Management

Purpose

1. To update the IPSASB on the program management approach for the *Presentation of Financial Statements* project.

Background

2. As provided for in the [Project Brief](#), the first phase of the project involves the development of a Consultation Paper (CP) accompanied by an illustrative exposure draft (ED). The Project Brief asserts that this approach will allow the IPSASB to appropriately explore public sector reporting issues while considering relevant international standard-setting developments (for example, the coming IFRS 18, *Presentation and Disclosure in Financial Statements* expected to be published by the IASB in April 2024).
3. The use of an illustrative ED will allow IPSASB to articulate principles and concepts, building on the areas of focus in the CP, so that constituents can understand how these might look in the future standard so they can provide input and feedback.¹
4. As noted in December 2023, a Task Force will be established for this project in early Q2 2024, and it will be led by the IPSASB Chair. The Task Force is expected to meet up to two times in Q2 2024 and will start to work through key issues related to the CP and the illustrative ED.
5. IPSASB staff have been working on research issues related to this project that will inform the development of the CP and illustrative ED. During this board meeting, the IPSASB will be asked to comment on proposals concerning general presentation requirements as follows:
 - (a) Definitions — [Agenda Item 12.2.2](#)
 - (b) Additional Comparative Information — [Agenda Item 12.2.3](#)
 - (c) Offsetting — [Agenda Item 12.2.4](#)
 - (d) Fair Presentation and Compliance with IPSAS — [Agenda Item 12.2.5](#)
 - (e) The presentation of revenue and expense items outside surplus or deficit (to be discussed in breakout sessions) — [Agenda Item 12.2.6](#)
6. The IPSASB decisions and feedback from the December 2023 and March 2024 meetings will be taken forward by staff for consideration and development through the Task Force. The Task Force recommendations will be brought back to IPSASB for consideration in future meetings starting in June 2024.

Decision required

7. No decision is required; the paper is provided for IPSASB information purposes.

¹ As set out in the Project Brief, the use of an illustrative ED is to help convey principles and concepts so constituents can provide feedback on the topics included in the CP. The next project stage, after the CP, will be to develop and publish an ED related to the proposed final pronouncement (informed by the feedback on the CP and illustrative ED).

General Presentation Requirements – Definitions

Question

1. Does the IPSASB agree with the proposed definitions for the *Presentation of Financial Statements* project, as provided in [Appendix A](#)?

Recommendation

2. Staff recommend that the IPSASB update the definitions of financial statement elements, as currently provided in IPSAS 1, *Presentation of Financial Statements*, to ensure consistency with the related definitions in the IPSASB Conceptual Framework.

Background

3. This project aims to create a modern public sector specific financial statement presentation standard to replace the existing IPSAS 1.
4. IPSAS 1, as the first standard in the suite of standards, includes several fundamental definitions relating to the presentation of financial statements, which are relevant to many standards. These definitions have not been amended since IPSAS was first published in 2000. Therefore, there is a need to assess the existing IPSAS 1 definitions against the updated IPSASB Conceptual Framework and the relevant sources in IFRS to determine whether any updates are required.

Analysis

5. Staff have considered for this meeting the following IPSAS 1 definitions, which encompass the financial statement elements as defined by the IPSASB Conceptual Framework¹ and the residual measure of net assets/equity:²

(a) Assets	(e) Ownership Contributions
(b) Liabilities	(f) Ownership Distributions
(c) Revenue	(g) Net assets/equity
(d) Expense	
6. The IASB does not provide the definitions of financial statement elements in the same way as the IPSASB. IAS 1, *Presentation of Financial Statements* issued by the IASB does not include defined terms for financial statement elements in the standard. Instead, IAS 1 references the IFRS *Conceptual Framework for Financial Reporting* for the definitions and recognition criteria for assets, liabilities, income and expenses. Consistent with IAS 1, the developing draft of IFRS 18, *Presentation and Disclosure of Financial Statements*, follows the same approach.³

¹ Chapter 5 of the IPSASB Conceptual Framework establishes the financial statement elements, described as the building blocks from which financial statements are constructed.

² Staff note there are other definitions that will be included in the new IPSAS to replace IPSAS 1, such as, for example, 'material.' These will be considered by the Task Force before coming back to the Board.

³ IFRS 18 is expected to be published by the IASB in April 2024.

7. The IPSASB, as a matter of standard practice, includes defined terms in IPSASs because of their authoritative status and the non-authoritative status of the IPSASB Conceptual Framework.
8. Staff recommend that all defined terms continue to be included in IPSASs, consistent with the current IPSASB literature. However, it will be important to ensure that the definitions of financial statement elements used in a new IPSAS to replace IPSAS 1 are appropriately aligned with the IPSASB Conceptual Framework and consistent with other IPSASs (such as new pronouncements including IPSAS 47, *Revenue*).

Approach for updating definitions

9. [Appendix A](#) provides the staff analysis and recommendations for updating the definitions.
10. To the extent possible, staff have used the high-level definitions of financial statements elements from the IPSASB Conceptual Framework to develop the recommended standards level definitions. Where additional guidance is needed to support the consistent interpretation of a definition, the Task Force will consider the drafting of explanatory paragraphs for inclusion in the illustrative exposure draft.
11. This approach will support the project objective of achieving appropriate alignment with IFRS. This is because the definitions of financial statement elements in the IPSASB Conceptual Framework have only recently been updated to ensure consistency with updated financial statement element definitions in the IASB Conceptual Framework.
12. The proposed definitions are in substance consistent with the existing definitions in IPSAS 1. However, the wording has been updated to align with the definitions in the IPSASB Conceptual Framework. The recognition of assets, liabilities, revenue, and expenses in particular circumstances will continue to be addressed in individual IPSASs. The proposed updates to the standards-level definitions of financial statement elements are not expected to change the classification of transactions in practice. However, it will remove the risk of confusion arising from having different definitions for the same terms between the IPSASB Conceptual Framework and individual IPSASs.

Reference to 'net financial position'

13. The only change to the proposed standards level definitions, in contrast to the definitions of financial statements elements in the IPSASB Conceptual Framework, is the reference to 'net financial position'. All references to 'net financial position' have been changed to 'net assets/equity'.
14. The IPSASB Conceptual Framework defines the 'net financial position' as the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the statement of financial position.⁴ If resources and other obligations were to be recognized in the financial statements, the amounts reported as 'net assets/equity' and 'net financial position' would differ.⁵

⁴ IPSASB Conceptual Framework, paragraphs 5.28.

⁵ IPSASB Conceptual Framework, BC5.57.

15. The concepts of 'other resources' and 'other obligations' were included in the 2014 version of the IPSASB Conceptual Framework, because the IPSASB contemplated that it may determine that to achieve the objectives of financial reporting, a resource or an obligation that does not satisfy the definition of an element defined in the Conceptual Framework, needs to be recognized in the financial statements.
16. The IPSASB has not specifically used the concept of other resources or other obligations in IPSAS, including in the most likely projects where this might be deemed necessary (revenue and transfer expenses). Therefore, the reference to 'net financial position' in IPSAS is not useful. The reference to 'net assets/equity' has been used instead at the standards level, as this term is generally understood as the difference between assets and liabilities recognized in the statement of financial position. This approach is consistent with the existing approach in IPSAS 1 and other IPSASs.⁶
17. The difference between the definitions of financial statement elements in the IPSASB Conceptual Framework and the proposed definitions included in the Illustrative Exposure Draft will be flagged as a specific matter for comment in the Consultation Paper.

Decision required

18. Does the IPSASB agree with the proposed standards level definitions of financial statement elements in [Appendix A](#)?

⁶ The current suite of IPSAS Standards does not refer to "net financial position".

Appendix A – Proposed Standards Level Definitions

Existing definition IPSAS 1 ¹	Definition of element Conceptual Framework (Oct 23) ²	Staff analysis	Recommended definition for new IPSAS to replace IPSAS 1
Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.	An asset is a resource presently controlled by the entity as a result of past events. ³	<ul style="list-style-type: none"> The proposed definition is aligned with the CF definition of an 'asset'. The definition of a 'resource' is proposed below to support the interpretation of the definition. 	An asset is a resource presently controlled by the entity as a result of past events.
Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.	A liability is a present obligation of the entity to transfer resources as a result of past events. ⁴	<ul style="list-style-type: none"> The proposed definition is aligned with the CF definition of a 'liability'. The definition of a 'resource' is proposed below to support the interpretation of the definition. 	A liability is a present obligation of the entity to transfer resources as a result of past events.
New proposed definition — A 'resource' is not a defined term in IPSAS 1 or other IPSASs.	A resource is a right to either service potential or the capability to generate economic benefits, or a right to both. ⁵	<ul style="list-style-type: none"> Both the IPSASB and IASB CFs recognize that the definition of an asset and liability cannot be understood without also defining a 'resource'. Explains how the critical concepts of service potential and economic benefits are included in the definitions of financial statement elements. 	A resource is a right to either service potential or the capability to generate economic benefits, or a right to both.

¹ IAS 1, paragraph 7.

² Including consideration of definition provided for in other IPSASs.

³ IPSASB Conceptual Framework, paragraphs 5.6.

⁴ IPSASB Conceptual Framework, paragraphs 5.14.

⁵ IPSASB Conceptual Framework, paragraph 5.6A.

Revenue is 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.	Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions. ⁶	<ul style="list-style-type: none"> Other than the reference to 'net financial position', the proposed definition is aligned with the CF definition of 'revenue'. The reference to 'net financial position' is replaced with 'net assets/equity'. 'Revenue' is not a defined term in IPSAS 47, <i>Revenue</i>. Instead, a detailed description for all revenue transactions is provided, which, in substance, is consistent with the CF definition.⁷ 	Revenue is increases in the net assets/equity position of the entity, other than increases arising from ownership contributions.
Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.	Expense is decreases in the net financial position of the entity, other than decreases arising from ownership distributions. ⁸	<ul style="list-style-type: none"> Other than the reference to 'net financial position', the proposed definition is aligned with the CF definition of 'expense'.⁹ The reference to 'net financial position' is replaced with 'net assets/equity'. 'Expense' or 'expenses' are not defined in IPSAS 48, <i>Transfer Expenses</i>. 	Expense is decreases in the net assets/equity position of the entity, other than decreases arising from ownership distributions.

⁶ Conceptual Framework, paragraph 5.29.

⁷ IPSAS 47, paragraph 5 provides that revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity, which represents an increase in net assets/equity other than increases relating to contributions from owners.

⁸ IPSASB Conceptual Framework, paragraph 5.30.

⁹ The Task Force will consider whether an additional explanatory paragraph is needed to explain that expenses include decreases in the value of assets and the consumption of assets through depreciation and erosion of service potential and capability to generate economic benefits through impairments (based on paragraph 5.31 of the Conceptual Framework).

<p><u>Net assets/equity</u> is the residual interest in the assets of the entity after deducting all its liabilities.¹⁰</p>	<p>Net assets/equity is not a defined term in the Conceptual Framework.¹¹</p>	<ul style="list-style-type: none"> • The definition should be carried forward as it is used throughout IPSAS and supports other defined terms. • The proposed definition is based on the existing definition <u>and</u> the description of net assets/equity in paragraph 14 of IPSAS 1.¹² 	<p><u>Net assets/equity</u> is the residual measure of total assets minus total liabilities, as reported in the entity's statement of financial position.</p>
<p><u>Contributions from owners</u> means future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:</p> <p>(a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up;</p>	<p><u>Ownership contributions</u> 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.¹³</p>	<ul style="list-style-type: none"> • Other than the reference to 'net financial position', the proposed definition is aligned with the CF definition.¹⁴ • The reference to 'net financial position' is replaced with 'net assets/equity'. • The more concise definition in the Conceptual Framework is better suited for the definition section of the standard. 	<p><u>Ownership contributions</u> 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 assets/equity of the entity.</p>

¹⁰ The current definition of net assets/equity in IPSAS 1 includes further details of the components of equity (being items that can be recognized directly in equity). Consistent with IFRS 18 this content will be moved to the requirements section of the standard.

¹¹ IPSASB Conceptual Framework, paragraph BC5.57

¹² IPSAS 1, Paragraph 14: Net assets/equity is the term used in this Standard to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

¹³ IPSASB Conceptual Framework, paragraph 5.33

¹⁴ The Task Force will consider whether any of the details currently provided in the IPSAS 1 definition should be carried forward through explanatory paragraphs.

and/or (b) Can be sold, exchanged, transferred, or redeemed.			
<u>Distributions to owners</u> means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.	<u>Ownership distributions</u> are outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity ¹⁵ .	<ul style="list-style-type: none"> Other than the reference to 'net financial position', the proposed definition is aligned with the CF definition.¹⁶ The reference to 'net financial position' is replaced with 'net assets/equity'. 	<u>Ownership distributions</u> are outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net assets/equity of the entity.

¹⁵ IPSASB Conceptual Framework, paragraph 5.34

¹⁶ The Task Force will consider whether any of the detail currently provided in the IPSAS 1 definition should be carried forward through an explanatory paragraph.

General Presentation Requirements – Additional Comparative Information

Question

1. Does the IPSASB agree that requirements for additional comparative information should be developed for the *Presentation of Financial Statements* project?

Recommendation

2. Staff recommend that the *Presentation of Financial Statements* project include proposals to introduce requirements for additional comparative information.

Background

3. Since the last major update to IPSAS 1 in 2005, there have been numerous revisions to IAS 1, *Presentation of Financial Statements*, leading to the introduction of significant new presentation requirements by the IASB. As noted in the Project Brief, such developments should be considered part of this project.
4. One of those developments has been the introduction of new requirements by the IASB to present a 'third balance sheet' in certain circumstances. The IASB introduced these new requirements to improve the transparency and usefulness of information presented in financial statements when previously reported comparative information has been retrospectively restated.
5. The development of IFRS 18, *Presentation and Disclosure of Financial Statements*, has resulted in no proposals to amend the existing requirements in IAS 1 on this matter.

Analysis

6. In 2007, the IASB issued a revised version of IAS 1, which included a new requirement to present a 'third balance sheet'. Further guidance paragraphs to clarify this new presentation requirement were added through IASB *Annual Improvements* issued in 2012.
7. In the revised version of IAS 1, an entity is required to present a statement of financial position as at the beginning of the earliest comparative period if:
 - (a) It applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in its financial statements; and
 - (b) Because of these changes, the comparative year's opening net asset/equity position is materially impacted.
8. In these circumstances, an entity is still only required to present one statement of financial position, but the statement is required to include three columns. For example, an entity with a December 31, 20X3 year-end would present the following three columns in its statement of financial position.
 - (a) The end of the current period (December 31, 20X3);
 - (b) The end of the preceding period (December 31, 20X2); and
 - (c) The beginning of the preceding period (January 1, 20X2).
9. An illustration of the presentation of the statement of financial position with three columns is provided below.

Statement of Financial Position For the year ended 31 December, 20X3	31 Dec 20X3	31 Dec 20X2 (restated)	1 Jan 20X2 (restated)
Assets	x	x	x
Liabilities	x	x	x
Total net assets/equity	x	x	x

10. We are aware that some respondents to the IASB exposure draft, which introduced the requirement to present a third balance sheet, “*expressed concern that the requirement would unnecessarily increase disclosures in financial statements, or would be impracticable, excessive and costly*”.¹ On balance, IASB staff noted general support for the requirements. In practice, the additional disclosures have become widely accepted by practitioners and are now expected by users in the private sector.
11. Staff do not see any public sector reason for not including such requirements and believe that not adopting these additional disclosures reduces transparency. When an entity has made retrospective amendments, which have materially impacted an entity’s opening equity position for the comparative year, users in the public sector will have a similar need to users in the private sector to understand the nature and amount of these prior period amendments.
12. We note, in particular, that public sector users seeking to analyze financial statements over an extended number of years will have a strong interest in understanding any changes to previously reported information about an entity’s financial position and performance.
13. Staff recommend that the *Presentation of Financial Statements* project include information and guidance on presenting a ‘third balance sheet’ to increase transparency, when previously period information has been materially impacted by a restatement.

Decision Required

14. Does the IPSASB agree with the staff [recommendation](#) in paragraph 2?

¹ IAS 1 Basis for Conclusions, paragraph 31.

General Presentation Requirements – Offsetting

Question

1. Does the IPSASB agree that the general presentation requirements in IPSAS 1 concerning offsetting should be carried forward in the *Presentation of Financial Statements* project?

Recommendation

2. Staff recommend that the general presentation requirements concerning *offsetting* be carried forward from IPSAS 1.

Background

3. An overarching presentation principle in both the IPSASB and IASB reporting frameworks is the principle of offsetting. This principle prohibits an entity from offsetting assets and liabilities or revenue and expenses, unless specifically required or permitted by an individual standard.
4. This principle supports the consistent classification and presentation of transactions and other events and the user's understanding of an entity's financial position, financial performance, and cash flows for the period. It is important that an entity's total assets, total liabilities, total revenue, total expenses, and the separate classification of total cash flows are reported separately.

Analysis

5. Staff have not identified a reason why the general presentation requirements concerning *offsetting* in IPSAS 1 should not be carried forward in the *Presentation of Financial Statements* project.
6. No substantive updates are necessary to the existing IPSAS 1 requirements concerning *offsetting* because:
 - (a) They are consistent with principles in the IPSASB Conceptual Framework;¹
 - (b) The existing requirements are aligned with IAS 1, *Presentation of Financial Statements*;
 - (c) No changes have been proposed on this matter during the development of IFRS 18, *Presentation and Disclosure in Financial Statements*; and
 - (d) No public sector specific issues regarding these requirements were identified during the research and scoping phase of this project.
7. The current requirements in IPSAS 1 regarding offsetting are provided in [Appendix A](#).

Decision Required

8. Does the IPSASB agree with the staff recommendation in paragraph 2?

¹ Conceptual Framework, paragraph 5.26H: Offsetting classifies dissimilar items together and is therefore generally not appropriate.

Appendix A: Extracts from IPSAS 1 — Offsetting

The IPSAS requirements are aligned with equivalent paragraphs in IAS 1, which have been carried forward into the developing draft of IFRS 18.

IPSAS 1	
Offsetting	
48.	Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.
49.	It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both: (a) to understand the transactions, other events and conditions that have occurred, and (b) to assess the entity's future cash flows. Measuring assets net of valuation allowances – for example, obsolescence allowances on inventories and doubtful debts allowances on receivables – is not offsetting.
50.	<p>PSAS 9, <i>Revenue from Exchange Transactions</i>, defines revenue and requires it to be measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:</p> <ul style="list-style-type: none"> (a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and (b) Expenses related to a provision that is recognized in accordance with IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.
51.	In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.
52.	The offsetting of cash flows is dealt with in IPSAS2, <i>Cash Flow Statements</i> .

General Presentation Requirements – Fair Presentation and Compliance with IPSASs

Question

1. Does the IPSASB agree that the general presentation requirements in IPSAS 1 concerning fair presentation and compliance with IPSASs should be carried forward in the *Presentation of Financial Statements* project?

Recommendation

2. Staff recommend that the general presentation requirements concerning *fair presentation and compliance with IPSASs* be carried forward from IPSAS 1.

Background

3. IPSAS 1, as part of establishing the general requirement for financial statement presentation, includes a section on *Fair Presentation and Compliance with IPSASs*. The paragraphs in this section are aligned with equivalent paragraphs in IAS 1.
4. This section of IPSAS 1 outlines the requirements for the disclosure of compliance with IPSAS and the disclosures required when management concludes that a departure from IPSAS is needed to ensure a fair presentation of the financial statements.

Analysis

5. Staff have not identified any reasons for not carrying the requirements concerning *Fair Presentation and Compliance with IPSASs* in IPSAS 1 forward.
6. No substantive updates are necessary to the existing IPSAS 1 requirements concerning *Fair Presentation and Compliance with IPSASs* because:
 - (a) They are consistent with principles in the IPSASB Conceptual Framework;
 - (b) The existing requirements are aligned with IAS 1, *Presentation of Financial Statements*;
 - (c) No changes have been proposed on this matter during the development of IFRS 18, *Presentation and Disclosure in Financial Statements*; ¹ and
 - (d) No public sector specific issues regarding these requirements were identified during the research and scoping phase of this project.²
7. The current requirements in IPSAS 1 regarding *Fair Presentation and Compliance with IPSASs* are provided in [Appendix A](#).

Decision Required

8. Does the IPSASB agree with the staff recommendation in paragraph 2?

¹ The IASB is planning to move the equivalent section on *Fair Presentation and Compliance with IFRSs* from IAS 1 to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (as part of consequential amendments arising from the issuance of IFRS 18). For the CP stage of this project, we plan to retain this section within the illustrative ED.

² We understand that these existing provisions in IPSAS 1 are generally well understood and applied consistently in practice.

Appendix A: Extracts from IPSAS 1 — Fair Presentation and Compliance with IPSASs

The IPSAS requirements are aligned with equivalent paragraphs in IAS 1, which have been carried forward into the developing draft of IFRS 18.

IPSAS 1	
Fair Presentation and Compliance with IPSASs	
27.	Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.
28.	An entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs.
29.	In virtually all circumstances, a fair presentation is achieved by compliance with applicable IPSASs. A fair presentation also requires an entity: <ul style="list-style-type: none"> (a) To select and apply accounting policies in accordance with IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. IPSAS 3 sets out a hierarchy of authoritative guidance that management considers, in the absence of a Standard that specifically applies to an item. (b) To present information, including accounting policies, in a manner that provides relevant, faithfully representative, understandable, timely, comparable, and verifiable information. (c) To provide additional disclosures when compliance with the specific requirements in IPSASs is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.
30.	Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.
31.	In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, the entity shall depart from that requirement in the manner set out in paragraph 32 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.
32.	When an entity departs from a requirement of a Standard in accordance with paragraph 31, it shall disclose: <ul style="list-style-type: none"> (a) That management has concluded that the financial statements present fairly the entity's financial position, financial performance, and cash flows; (b) That it has complied with applicable IPSASs, except that it has departed from a particular requirement to achieve a fair presentation; (c) The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this Standard, and the treatment adopted; and (d) For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.

33.	When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognized in the financial statements for the current period, it shall make the disclosures set out in paragraph 32(c) and (d).
34.	Paragraph 33 applies, for example, when an entity departed in a prior period from a requirement in a Standard for the measurement of assets or liabilities, and that departure affects the measurement of changes in assets and liabilities recognized in the current period's financial statements.
35.	<p>In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:</p> <p>(a) The title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in this Standard; and</p> <p>(b) For each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.</p>
36.	<p>For the purpose of paragraphs 31–35, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events, and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, management considers:</p> <p>(a) Why the objective of financial statements is not achieved in the particular circumstances; and</p> <p>(b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this Standard.</p>
37.	Departures from the requirements of an IPSAS in order to comply with statutory/legislative financial reporting requirements in a particular jurisdiction do not constitute departures that conflict with the objective of financial statements set out in this Standard as outlined in paragraph 31. If such departures are material, an entity cannot claim to be complying with IPSASs. ³

³ Paragraph 37 of IPSAS 1 is a public sector specific paragraph, no equivalent paragraph is provided in IAS 1.

Breakout group discussion — Presentation of Revenue and Expense Items Outside the Surplus or Deficit

Purpose

1. This paper provides background information and questions to consider in preparation for breakout group discussions during the March 2024 IPSASB meeting.
2. The purpose of the breakout discussions is to enable IPSASB members, technical advisors, and meeting observers to provide preliminary feedback to assist staff in developing the *Presentation of the Financial Statements* Consultation Paper and accompanying Illustrative Exposure Draft.

Discussion Topic

3. IPSAS currently requires or permits certain items of revenue and expenses to be recognized directly in net assets/equity and presented through the statement of changes in net assets/equity.
4. The statement of changes in net assets/equity often receives less attention from users of financial statements, in contrast to the statements addressing financial performance, financial position, and cash flows. For this reason, transactions recognized directly in net assets/equity can be overlooked by users, especially when an entity has multiple equity reserves.
5. This project provides the opportunity to consider whether presenting revenue and expense items directly in net assets/equity provides an appropriate level of transparency and a faithful representation of the transactions. This opportunity includes considering how similar-like transactions are presented in IFRS and information prepared for government finance statistics (GFS) purposes.

Questions

- | |
|---|
| <ol style="list-style-type: none">6. For items of revenue and expense currently recognized directly in net assets/equity by IPSAS:<ol style="list-style-type: none">(a) What are the advantages and disadvantages of the current approach?(b) Is there a need for greater transparency regarding where and how these transactions are currently presented?(c) To what extent should the IPSASB seek to align the presentation of these revenue and expense items with the presentation approaches in IFRS and/or GFS?(d) Are there any other presentation approaches you suggest being considered? |
|---|

Background information

7. This paper includes background information to support the breakout group discussions under the following content headers.
 - (a) [Presentation of revenue and expenses in IPSAS](#)
 - (b) [Presentation of income and expenses in IFRS](#)
 - (c) [Presentation of economic flows in GFS](#)

Breakout Group Preparation

8. Please review this agenda item and be prepared to provide feedback in response to the [Questions](#).

Presentation of revenue and expenses in IPSAS

9. IPSAS 1, *Presentation of Financial Statements* currently requires that all items of revenue and expense recognized in the reporting period to be included in the surplus or deficit as reported in the statement of financial performance, unless an IPSAS requires otherwise.¹
10. This requirement is based on an understanding of how the following financial statement concepts are defined in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the 'Conceptual Framework').²
- (a) **Revenue** is increases in the net financial position of the entity, other increases arising from ownership contributions.
 - (b) **Expense** is decreases in the net financial position of the entity, other than decreases arising from ownership distributions.
 - (c) **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.
 - (d) **Ownership distributions** are outflows of resources to an entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.
 - (e) **Net financial position** is the difference between assets and liabilities after adding any other resources or deducting any other obligations recognized in the statement of financial position.³
11. The salient point for this discussion is that revenue and expense, as defined in the Conceptual Framework, include all increases and decreases in the net financial position of an entity, other than ownership contributions/distributions. Revenue and expenses, therefore, include all gains/losses in the carrying value of assets and liabilities recognized in the reporting period, regardless of their nature and whether they are realized or unrealized.

Revenue and expense items presented outside the surplus or deficit

12. An entity's surplus or deficit for the period is the difference between revenue and expenses reported in the statement of financial performance.⁴ The surplus or deficit remains a key performance measure of the entity's ability to meet its service delivery objectives based on the revenue recognized in that period.
13. As noted earlier, IPSAS generally requires all revenue and expenses to be reported in the surplus or deficit for the period, except for certain items reported outside the surplus or deficit, as discussed in the following sections.

¹ IPSAS 1.99

² IPSASB Conceptual Framework, paragraphs 5.27 – 5.37.

³ IPSASs do not currently allow for the recognition of other resources or other obligations in the statement of financial position.

⁴ Paragraph 5.32 of the IPSASB Conceptual Framework.

14. IPSAS explicitly requires or permits the following revenue and expense items to be excluded from the surplus or deficit and instead reported directly in net assets/equity when specific circumstances are met.⁵
- (a) Changes in the revaluation of property, plant and equipment, and intangibles;
 - (b) Remeasurements of defined benefit plans;
 - (c) Gains and losses arising from translating the financial statements of a foreign operation;
 - (d) Gains and losses from investments in equity instruments designated at fair value through net assets/equity;
 - (e) Gains and losses on financial assets measured at fair value through net assets/equity;
 - (f) Gains and losses on certain hedging instruments and other financial instruments
 - (g) For particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability's credit risk;
 - (h) Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value; and
 - (i) Changes in the value of the forward elements of forward contracts in certain circumstances.
15. The specific circumstances in which IPSAS requires certain revenue and expense items to be recognized directly to net assets/equity are addressed through individual IPSASs – some examples are provided in [Appendix B](#).
16. Table 1 (next page) illustrates an example whereby property valuation gains are recognized directly in equity (shaded grey) and presented in the statement of changes in net assets/ equity, rather than being reported in the surplus or deficit for the period.

Table 1 – Presentation of revenue and expense items directly in equity

Statement of Changes in Net Assets/Equity December 31, 20X3			
	Accumulated surpluses/ (deficits)	Property revaluation reserve	Total net assets/ equity
	xx	xx	xx
Net assets/equity balance — Dec 31, 20X1			
Surplus/(deficit) for period	x	-	x
Gain on property valuation	-	x	x
Total recognized revalue and expense for period	x	x	x
Net assets/equity balance — Dec 31, 20X2	xx	xx	xx
Surplus/(deficit) for period	x	-	x
Gain on property valuation	-	x	x
Total recognized revalue and expense for period	x	x	x
Net assets/equity balance — Dec 31, 20X3	xx	xx	xx

⁵ IPSAS 1.7, The definition of net assets/equity lists the components of income and expenses recognized directly in net assets/equity.

Basis for current presentation approach in IPSAS

Recognizing revenue and expense items directly in net assets/equity

17. The IPSASB's Conceptual Framework and individual IPSASs do not provide a basis for requiring or permitting the recognition of certain revenue and expense items directly in net assets/equity. Traditionally, this presentation approach has been adopted by standard-setters to exclude unrealized gains and losses resulting from the subsequent remeasurement of certain assets and liabilities from an entity's surplus or deficit for the period. This practice has arisen over time from the desire for the surplus or deficit reported in the statement of financial performance to be focused on the 'ordinary operations' of the reporting entity and on transactions for which the entity is seen to control.
18. The recognition of revenue and expense items directly in net assets/equity as currently provided in IPSAS was aligned with IFRS when IPSAS 1 was first developed in 2000.

Consideration of OCI

19. The IASB in 2007 introduced the concept of other comprehensive income (OCI) to provide greater transparency over revenue and expense items recognized outside the profit or loss (discussed further in the [next section](#)). The presentation concept of OCI or an equivalent public sector approach does not currently exist in the IPSASB literature, either at a conceptual or standards level.
20. During the development of the IPSASB's Conceptual Framework published in 2014, OCI remained a relatively new concept and was generally seen as addressing a for-profit reporting issue. The IPSASB did not view OCI as being immediately applicable or beneficial for advancing public sector reporting. The IPSASB also cited that the IASB had not established a conceptual basis for introducing OCI and, therefore, agreed not to explore it further at that time.
21. As identified in the Project Brief, this project provides the opportunity to consider the merits of introducing an OCI-like approach into the IPSAS at the standards level.

Presentation of income and expenses in IFRS

22. Consistent with IPSAS, IFRS also requires that all items of income and expense recognized in the reporting period be included in profit or loss, unless an IFRS requires or permits otherwise.⁶ The IASB describes the income and expense items not recognized in the profit or loss section of the statement(s) of financial performance as OCI.
23. Individual IFRS standards explicitly require or permit an entity to report the following items of income and expenses as OCI:
- (a) Changes in revaluation surplus of property, plant and equipment, and intangibles;
 - (b) Remeasurements of defined benefit plans;
 - (c) Gains and losses arising from translating the financial statements of a foreign operation;
 - (d) Gains and losses arising from investments in equity instruments designated at fair value through OCI.
 - (e) Gains and losses on financial assets measured at fair value through OCI;
 - (f) Gains and losses on certain hedging instruments and other financial instruments;
 - (g) For particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk; and
 - (h) Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value; and
 - (i) Finance income and expenses from reinsurance contracts held excluded from profit or loss when total reinsurance finance income or expenses is disaggregated to include in profit or loss an amount determined by a systematic allocation.
24. The OCI items above are consistent with the revenue and expense items in IPSAS that are required or permitted to be recognized directly in net assets/equity. The difference is limited to where and how the transactions are presented — directly in movements in net assets/equity (as in IPSAS), or through separate financial performance statement(s), which report the total comprehensive income balance for the period (as in IFRS).

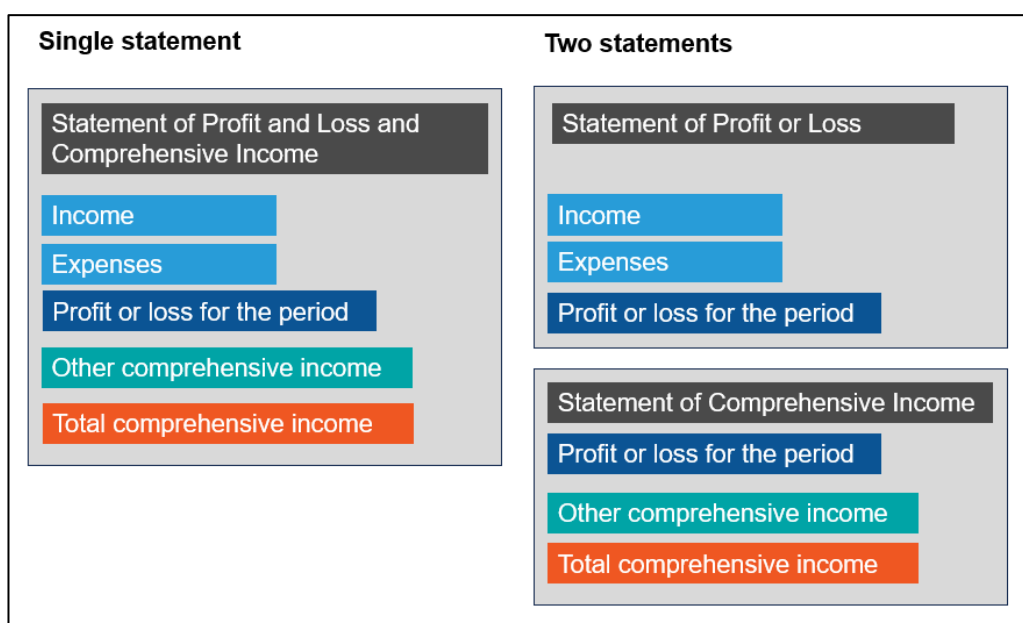
Presentation of OCI in IFRS

25. IAS 1, *Presentation of Financial Statements* provides an entity with the choice to report the components of its profit or loss and OCI in either:
- (a) A single statement — *Statement of Profit or Loss and Other Comprehensive Income*, with profit or loss and other comprehensive income presented in two sections; or
 - (b) Two statements — a *Statement of Profit or Loss* and a separate *Statement of Other Comprehensive Income* that begins with the profit or loss balance.

⁶ IAS 1.88

26. The two presentation approaches are illustrated by Diagram 1.

Diagram 1 – IFRS Financial performance statement(s)



27. [Appendix A](#) provides further illustrative examples of the two presentation options for reporting OCI in accordance with IFRS.
28. This IFRS presentation approach highlights a significant difference from IPSAS, where the same items as those in OCI are presented directly in the statement of changes in net assets/equity.

Recycling

29. All items reported through OCI under IFRS are required to be classified into one of two categories:
- (a) Items that will be reclassified to profit or loss when specific conditions are met; and
 - (b) Items that will not be reclassified to profit or loss.
30. This classification is commonly referred to as 'recycling' and addresses the question of whether movements initially reported through OCI are subsequently reported through the surplus or deficit when realized. Whether recycling is required or permitted for certain OCI movements is addressed by individual IFRSs.

Introduction of OCI concept into IFRS

31. In September 2007, the IASB issued amendments to IAS 1, which clarified that only transactions with owners in their capacity as owners (either contributions from owners or distributions to owners) should be reported directly in equity (i.e., through the statement of changes in equity). All other non-owner transactions that represented changes in the net asset position of the entity meet the definition of income and expenses in the IASB's Conceptual Framework.
32. This clarification brought about the need for the IASB to consider how certain items of revenue and expenditure, which were previously reported directly through the statement of movements in equity, should be presented in the financial statements.

33. The IASB concluded that the statement of profit or loss should remain the primary source of information about an entity's financial performance. In principle, all income and expenditure should be reported through the statement of profit or loss. However, in developing IFRSs, the IASB agreed that in exceptional circumstances, certain items of income or expenses should be permitted to be included in OCI when doing so would result in the statement of profit or loss providing more relevant information or providing a more faithful representation of the entity's financial performance for that period.
34. The IASB does not define *profit or loss*, nor does it provide criteria for distinguishing the characteristics of items that should be included in profit or loss from those items that should be excluded from profit or loss – and instead included in OCI.
35. Decisions by the IASB about what transactions should be reported within OCI are made during the development of individual standards, based on the consideration of how movements in the measurement of certain assets and liabilities for the period should be reflected in the financial statements.
36. IAS 1 currently prescribes how items of income and expenses that individual IFRSs explicitly require or permit to be reported through OCI are to be presented. The principles and requirements regarding OCI have not been amended as a result of the IASB's recently completed *Primary Financial Statements* project.⁷ The IASB acknowledges that it has yet to set out a conceptual basis for how it determines whether an item should be presented in OCI or profit or loss.

Purpose of OCI

37. In developing the presentation concept of OCI, the IASB recognized that:
- (a) The total 'profit or loss for the period' remains a key indicator of the entity's financial performance; and
 - (b) A full understanding of an entity's financial performance for the period requires an analysis of all recognized income and expenses— including income and expense items reported outside of the profit or loss performance measure.
38. The primary purpose of OCI is to provide a more comprehensive and transparent view of an entity's financial performance by reporting the entity's surplus or deficit for the period together with any OCI movements in the statement(s) of financial performance. This enables an entity to report its 'total comprehensive income' – representing the total income and expenditure (including all gains and losses) recognized in the period arising from non-owner transactions.
39. The OCI presentation approach is seen as more transparent and faithfully representative of an entity's financial performance in the period, in contrast to the historical approach of recognizing certain income and expense items (such as the revaluation of PP&E) directly through equity.
40. Another purpose of OCI is to isolate certain gains or losses recognized in the period from the profit or loss performance measure. There was support for measuring certain assets and liabilities in the balance sheet at remeasured amounts to improve the information about an entity's financial

⁷ The IASB's *Primary Financial Statement* is expected to lead to the publication of IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024.

position. However, there was also a desire from certain stakeholder groups to keep the resulting valuation movements separate from the profit or loss financial performance measure.

Feedback from constituents

41. In the private sector, most IFRS reporters have applied the OCI presentation approach since 2011. As a result, the perspectives of both supporters and detractors have become clearer.
42. Recent IASB staff analysis has found that overall, the OCI presentation approach is achieving its intended objectives. However, IASB staff have noted the following concerns raised by constituents.
 - (a) Some users think the term OCI is confusing and see OCI as a black box or 'dumping ground' for anything controversial;
 - (b) There is a lack of clarity among users about the roles of profit or loss and OCI and the notion of recycling (when OCI items are reclassified to profit and loss); and
 - (c) Some users do not analyze OCI items because of a lack of understanding of OCI or because they do not consider them operating flows from which they can infer long-term trends.
43. Standard-setters and academics continue to highlight that there is no conceptual basis or criteria for determining which items of income and expenses should be reported in an entity's profit or loss and which should be reported in OCI. However, we note that there was also no conceptual basis for the previous IASB treatment of recognizing OCI movements directly in equity.
44. We also note the feedback from public sector constituents encouraging the IPSASB to consider the introduction of OCI into IPSAS. A common message received was that a presentation approach aligned with IFRS would make public-sector financial statements more accessible to those with a private-sector accounting background who are familiar with the OCI presentation format.⁸

Presentation of economic flows in GFS

45. In advancing the discussion on how items of revenue and expense reported outside the surplus or deficit should be presented under IPSAS, it is useful to consider how information prepared for GFS purposes records similar transactions.
46. Although public sector financial reporting and GFS fulfill different purposes, financial information prepared in accordance with IPSAS and GFS guidelines have much in common. Both are prepared on an accrual basis and present a government's assets, liabilities, revenue, expenses, and information on cash flows. There is considerable overlap between IPSAS and GFS, and therefore, there is benefit in seeking to understand how revenue and expenses (including gains and losses) are presented for GFS reporting purposes.

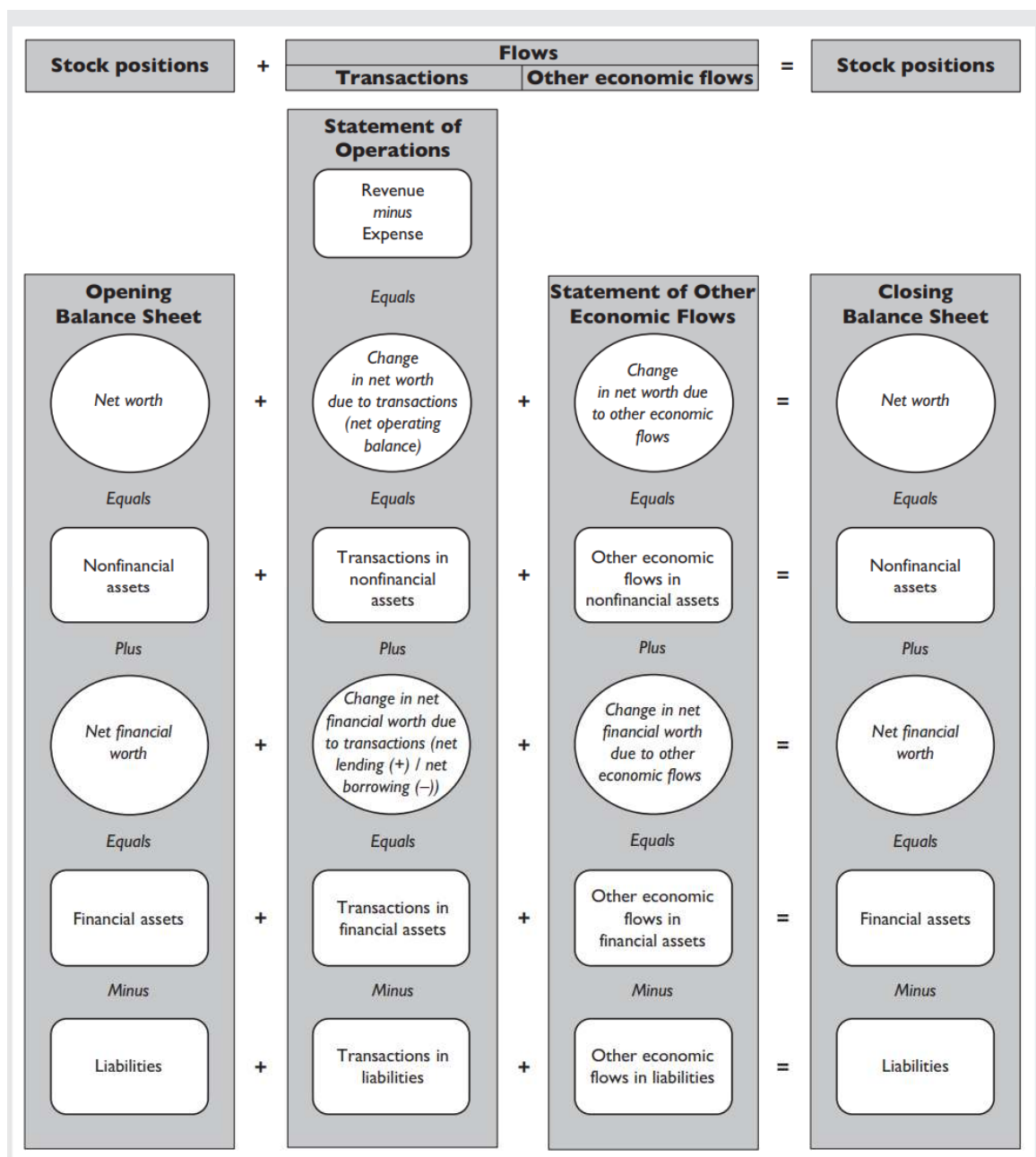
⁸ Responses to the IPSASB's consultation on its proposed 2019-2023 Strategy and Work Program, encouraged the IPSASB to consider the adoption of OCI.

"In relation to IPSAS 1, we feel that the IPSASB should formally consult in the adoption of OCI as this divergence from IFRS is fundamental and should be fully considered as a priority project" (ACAEW, 2018)

"HoTARAC would particularly encourage the IPSASB to focus on IPSAS 1 and the introduction of OCI. The absence of OCI under IPSAS complicates the process of convergence with IFRS" (HoTARAC, 2018).

47. The Government Finance Statistics Manual 2014, published by the International Monetary Fund (IMF), provides a GFS analytical framework for assessing the general government sector's financial operations and financial position. This structure of the GFS analytical framework is illustrated in Diagram 2.

Diagram 2 — GFS analytical framework⁹



⁹ Figure 4.1 of the Government Finance Statistics Manual 2014

48. For this discussion, it is useful to note how the changes in net worth¹⁰ between balance sheet dates (which GFS describes as 'economic flows' and is equivalent to changes in net assets/equity) are recorded across two statements.
- (a) Statement of Operations – which reports the 'transactions' for the period; and
 - (b) Statement of Other Economic Flows – which reports the 'other economic flows' for the period.
49. Similar to the OCI approach used by the IASB, the presentation of two 'performance statements' provides increased transparency over the total economic flows recognized in the reporting period. It also allows certain economic flows to be excluded from the 'net operating balance' as reported in the statement of operations.

Statement of Operations

50. The *statement of operations* in GFS presents details of transactions in revenue and expense, as well as the net investment in non-financial assets, the net acquisition of financial assets, and the net incurrence of liabilities. Revenue is defined as the increase in net worth resulting from transactions, and expense as the decrease in net worth resulting from transactions.
51. 'Transactions' as defined by GFS is "an economic flow that is an interaction between institutional units by mutual agreement or through the operation of the law, or an action within an institutional unit that is analytically useful to treat like a transaction, often because the unit is operating in two different capacities." The definition of a transaction stipulates that an interaction between institutional units occurs by mutual agreement.¹¹
52. The impact of transactions on net worth can largely be attributed directly to government policies since governments have direct control over the decisions that lead to the interaction with other units by mutual agreement.
53. *Transactions* are separately classified from *other economic flows* to demonstrate how general government and public sector units raise revenue and spend it on delivering goods and services to the public, and to show the effects of fiscal policy decisions on the net worth of the sector.
54. A key performance measure in the statement of operations is the '*net operating balance*', which equals the revenue less expenses recorded in this statement. Although measured differently, this performance measure is akin to the 'surplus or deficit' performance measure in IPSAS.

¹⁰ Under GFS, the 'net worth' of an institutional unit (or grouping of units) is the total value of its assets minus the total value of its liabilities.

¹¹ Mutual agreement means that there was prior knowledge and consent by the units, but it does not mean that both units entered into the transaction voluntarily. Some transactions, such as the payment of taxes, are imposed by force of law. Although individual units are not free to determine the amount of taxes they pay, there is collective recognition and acceptance by the community of the obligation to pay taxes.

55. The Statement of Operations in GFS is illustrated in Diagram 3.

Diagram 3 — Statement of Operations¹²

Table 4.1 Statement of Operations	
<i>Transactions Affecting Net Worth:</i>	
1	Revenue
11	Taxes
12	Social contributions [GFS]
13	Grants
14	Other revenue
2	Expense
21	Compensation of employees [GFS]
22	Use of goods and services
23	Consumption of fixed capital [GFS]
24	Interest [GFS]
25	Subsidies
26	Grants
27	Social benefits [GFS]
28	Other expense
NOB/GOB	Net/gross operating balance (1–2)¹
<i>Transactions in Nonfinancial Assets:</i>	
31	Net/gross investment in nonfinancial assets ²
311	Fixed assets
312	Inventories
313	Valuables
314	Nonproduced assets
2M	Expenditure (2+31)
NLB	Net lending (+) / Net borrowing (–) [GFS] (1–2–31 = 1–2M = 32–33)
<i>Transactions in Financial Assets and Liabilities (Financing):</i>	
32	Net acquisition of financial assets
321	Domestic ³
322	External ³
33	Net incurrence of liabilities
331	Domestic ³
332	External ³

¹² Page 70 of the Government Finance Statistics Manual 2014

Statement of Other Economic Flows

56. The *statement of other economic flows* in GFS records the changes in net worth that come about for reasons other than *transactions*.
57. *Other economic flows* include changes to the carrying value of assets and liabilities that arise from price movements, including market and exchange rate movements. Other changes in the value of asset positions arising from events such as debt write-offs, the discovery of new assets/liabilities (e.g., mineral deposits), depletion or destruction of assets, or reclassification of assets/liabilities are also included in other economic flows.
58. Movements recorded as other economic flows will often be significant because, in principle, GFS requires that all flows and stock positions (assets and liabilities) be measured at market prices
59. Although governments do not have direct control over the movements classified as 'other economic flows', GFS recognizes that these risks need to be monitored so that governments can manage them proactively to minimize their potential fiscal impact.
60. The Statement of Other Economic Flows in GFS is illustrated in Diagram 4.

Diagram 4

Table 4.3 Statement of Other Economic Flows	
9	Change in net worth due to other economic flows (4+5)¹
4	Change in net worth due to holding gains and losses
41	Nonfinancial assets
411	Fixed assets
412	Inventories
413	Valuables
414	Nonproduced assets
42	Financial assets ²
43	Liabilities ²
5	Change in net worth due to other changes in the volume of assets and liabilities
51	Nonfinancial assets
511	Fixed assets
512	Inventories
513	Valuables
514	Nonproduced assets
52	Financial assets ²
53	Liabilities ²

¹See Table 10.2 for a detailed classification of other economic

Comparison between GFS and IPSAS

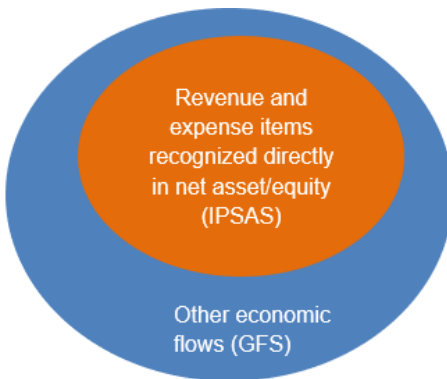
61. Generally, all items of revenue and expense recognized directly in net assets/equity under IPSAS will be classified as 'other economic flows' under GFS because these revenue and expense items will not meet the definition of a 'transaction' as defined by GFS.
62. Table 2 summarizes how revenue and expense items recognized directly in net asset/equity under IPSAS are recorded in GFS (and IFRS).

Table 2

Transaction recorded in net assets/equity in IPSAS	Classification in GFS		Classification in IFRS	
	Statement of operations (Transactions)	Statement of other economic flows (Other economic flows)	Profit or loss	OCI
Changes in the revaluation of property, plant and equipment, and intangibles		✓		✓
Remeasurements of defined benefit plans		✓		✓
Gains and losses arising from translating the financial statements of a foreign operation		✓		✓
Gains and losses from investments in equity instruments designated at fair value through net assets/equity		✓		✓
For particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability's credit risk		✓		✓
Changes in the fair value of hedging instruments in certain circumstances		✓		✓

63. Table 2 illustrates that all revenue and expense items presented directly in net assets/equity under IPSAS (or through OCI under IFRS) will likely be classified as 'other economic flows' in GFS. However, the vice versa is not always true – the scope of items classified as 'other economic flows' under GFS is broader than those required or permitted to be recognized directly in equity under IPSAS (or through OCI under IFRS). This relationship is illustrated in Diagram 5 on the next page.

Diagram 5 – comparison between IPSAS and GFS



64. To illustrate this further, it is useful to consider the example of how fair value gains/losses in equity instruments are classified between IPSAS and GFS. Under GFS, all valuation movements on financial instruments due to price changes (i.e., market movements) will be recorded as 'other economic flows'. Whereas under IPSAS, in certain circumstances, the equivalent valuation movements will be recorded as part of the surplus or deficit in the statement of financial performance, and in other circumstances, the movements will be recorded directly in net assets/equity (depending on the classification of the financial instrument for reporting purposes).
65. The result is that although the GFS 'net operating balance' is calculated in the same way as the IPSAS 'surplus/deficit' (both are calculated as revenue minus expenses), the value of the two performance measures is likely to be different. This is because of the difference between what revenue and expense items are recorded directly in equity in IPSAS and what economic flows are recorded in other economic flows in GFS.¹³

¹³ Paragraph A6.56 of the Government Finance Statistics Manual 2014.

Appendix A – Illustrative Examples of OCI presentation approaches under IFRS

Derived from illustrative examples provided in IAS 1.

Presentation of profit or loss and other comprehensive income in **one statement**.

Statement of profit or loss and other comprehensive income		
For the year ended 31 December 20X4		
	20X4	20X3
Revenue	390,000	355,000
Expenses	(228,333)	(227,000)
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year	121,250	96,000
Other comprehensive income		
<i>Items that will not be reclassified to profit and loss</i>		
Gains on property valuation	933	3,367
Remeasurement of defined benefit plans	(667)	1,333
<i>Items that may be reclassified subsequently to profit and loss</i>		
Exchange differences on translating foreign operations	5,334	10,667
Cash flow hedges	(667)	(4,000)
Total other comprehensive income for the year	4,933	11,367
Total comprehensive income for the year	126,183	107,367

Presentation of profit or loss and other comprehensive income in **two statements**.

Statement of profit or loss		
For the year ended 31 December 20X4		
	20X4	20X3
Revenue	390,000	355,000
Expenses	(228,333)	(227,000)
Profit before tax	161,667	128,000
Income tax expense	(40,417)	(32,000)
Profit for the year	121,250	96,000

Statement of other comprehensive income		
For the year ended 31 December 20X4		
	20X4	20X3
Profit for the year	121,250	96,000
Other comprehensive income		
<i>Items that will not be reclassified to profit and loss</i>		
Gains on property valuation	933	3,367
Remeasurement of defined benefit plans	(667)	1,333
<i>Items that may be reclassified subsequently to profit and loss</i>		
Exchange differences on translating foreign operations	5,334	10,667
Cash flow hedges	(667)	(4,000)
Total other comprehensive income for the year	4,933	11,367
Total comprehensive income for the year	126,183	107,367

Appendix B – Examples of requirements in IPSAS (and IFRS)

Below are some examples of paragraphs in IPSAS that require or permit revenue and expense items to be recognized directly in equity. The examples include equivalent provisions in IFRS, which require or permit the same revenue and expense items to be recognized in OCI.

IPSAS	IFRS
<p>IPSAS 17 Property, Plant and Equipment</p> <p>54. If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.</p>	<p>IAS 16 Property, Plant and Equipment</p> <p>39 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.</p>
<p>55. If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.</p>	<p>40. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.</p>
<p>IPSAS 39 Employee Benefits</p> <p>Post benefit plans</p> <p>122 An entity shall recognize the components of defined benefit cost, except to the extent that another IPSAS requires or permits their inclusion in the cost of an asset, as follows:</p> <ul style="list-style-type: none"> (a) Service cost in surplus or deficit; (b) Net interest on the net defined benefit liability (asset) in surplus or deficit; and (c) Remeasurements of the net defined benefit liability (asset) in net assets/equity. 	<p>IAS 19 Employee Benefits</p> <p>Post benefit plans</p> <p>120 An entity shall recognise the components of defined benefit cost, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset, as follows:</p> <ul style="list-style-type: none"> (a) service cost in profit or loss; (b) net interest on the net defined benefit liability (asset) in profit or loss; and (c) remeasurements of the net defined benefit liability (asset) in other comprehensive income.
<p>124 Remeasurements of the net defined benefit liability (asset) recognized in net assets/equity shall not be reclassified to surplus or deficit in a subsequent period. However, the entity may transfer those amounts recognized in net assets/equity within net assets/equity.</p>	<p>122 Remeasurements of the net defined benefit liability (asset) recognised in other comprehensive income shall not be reclassified to profit or loss in a subsequent period. However, the entity may transfer those amounts recognised in other comprehensive income within equity.</p>

IPSAS 4 The Effects of Changes in Foreign Exchange Rates	IAS 21 The Effects of Changes in Foreign Exchange Rates
<p>35 When a gain or loss on a non-monetary item is recognized directly in net assets/equity, any exchange component of that gain or loss shall be recognized directly in net assets/equity. Conversely, when a gain or loss on a non-monetary item is recognized in surplus or deficit, any exchange component of that gain or loss shall be recognized in surplus or deficit.</p>	<p>30 When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.</p>
<p>36 Other IPSASs require some gains and losses to be recognized directly in net assets/equity. For example, IPSAS17 requires some gains and losses arising on a revaluation of property, plant, and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, Paragraph 27(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.</p>	<p>31 Other IFRSs require some gains and losses to be recognised in other comprehensive income. For example, IAS 16 requires some gains and losses arising on a revaluation of property, plant and equipment to be recognised in other comprehensive income. When such an asset is measured in a foreign currency, paragraph 23(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognised in other comprehensive income.</p>