

Meeting: International Public Sector Accounting Standards Board

Meeting Location: Riyadh, Saudi Arabia

Meeting Date: December 10–13, 2024

Agenda Item 7

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	<ul style="list-style-type: none"> Eileen Zhou, Principal 	
Task Force members	<ul style="list-style-type: none"> David Watkins, IPSASB Technical Advisor (Task Force Chair) Angela Ryan, IPSASB Member Andrew van der Burgh, IPSASB Member Jonah Wala, IPSASB Member Marc Wermuth, IPSASB Technical Advisor Jean-Pierre Menanteau, Conseil de normalisation des comptes publics (CNoCP) France Antonella Risi, Public Sector Accounting Board (PSAB) Canada 	
Meeting objectives Project management	Topic	Agenda Item
	Project Management Dashboard	7.1.1
	Instructions up to Previous Meeting	7.1.2
	Decisions up to Previous Meeting	7.1.3
Decisions required at this meeting	Project Roadmap	7.1.4
	Project Overview and Next Steps	7.2.1
	Statement of Financial Performance – Categories	7.2.2
	Statement of Financial Performance – Totals and Subtotals	7.2.3
	Enhancing Transparency of Revenue and Expense Items Recognized Outside Surplus or Deficit	7.2.4

Prepared by: Eileen Zhou (November 2024)

**PRESENTATION OF FINANCIAL STATEMENTS:
 PROJECT MANAGEMENT DASHBOARD**

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

	Past meetings	Dec 2024	Mar 2025	Jun 2025	Sep 2025
Project Management					
Completion of Research and Scoping	✓				
Approval of Project Brief	✓				
Review and Approval of CP and IED					
CP and IED Development					
Objective, Scope, Purpose, Users, Info Needs	✓				
Definitions	✓				
General Principles of Presentation ¹	✓				
Statement of Financial Position	✓				
Statement of Financial Performance					
Revenues and Expenses Outside Surplus/Deficit					
Statement of Changes in Net Assets/Equity					
Disclosure in the Notes					
CP (other elements)					
Introductory Chapter	✓				
IED (other elements)					
Other Sections					

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

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, materiality, aggregation and disaggregation, and offsetting.

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2024	1. Include in the IED a Specific Matter for Comment (SMC) regarding the proposal to require the presentation of a third Statement of Financial Position in specific circumstances.	1. In progress.
September 2024	2. Update Chapter 3 (Statement of Financial Position) of the draft CP to highlight and explain the basis for retaining the order of liquidity approach and the mixed presentation approach for presenting the Statement of Financial Position.	2. Reflected in draft CP and IED.
September 2024	3. Update the draft CP and IED in response to other feedback received from the IPSASB.	3. Reflected in draft CP and IED.
March 2024	1. Include in the CP a discussion and preliminary view on using the definitions of financial statement elements based on the Conceptual Framework definitions.	1. In progress – this will be included in Chapter 2 of the CP on <i>General Presentation Principles</i> .
March 2024	2. Consider whether further guidance on disclosing compliance with IPSAS is needed, especially for jurisdictions that have adopted adapted versions of IPSAS.	2. In progress – IPSAS applies to entities that prepare financial statements in full compliance with IPSAS. If a jurisdiction adopts an adapted version of IPSAS, it should develop appropriate disclosures concerning compliance. This could be an area where staff guidance can be developed to support national standard-setters.
December 2023	1. Engage with users through focus groups/roundtables to inform views and support the development of the CP.	1. Ongoing – The CP is currently being developed through active engagement with a Task Force and other focus groups/roundtables.
December 2023	2. Consider feedback from IPSASB members, Technical Advisors, and observers received during the breakout sessions.	2. See Agenda Items 7.2.2 , 7.2.3 , and 7.2.4 .

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
September 2024	1. Chapter 3 of the draft CP on the Statement of Financial Position appropriately reflected the IPSASB's previous deliberation of issues.	1. Draft CP reflects IPSASB comments.
September 2024	2. The draft CP should present a preliminary view (PV) for each key issue considered by the IPSASB during Phase 1 of the project, along with an explanation of the basis of each PV.	2. In progress.
September 2024	3. The IED should focus on showing what the proposed principles and requirements could look like based on the PVs in the draft CP. The Basis for Conclusions section is to be developed in Phase 2 of the project, drawing from the material in the draft CP, and the IPSASB's views following stakeholder input.	3. In progress.
September 2024	4. The following sections of the IED should be carried forward as drafted: <ul style="list-style-type: none"> • The general requirements for financial statements; • The principles of aggregation and disaggregation; and • The principles on presenting the Statement of Financial Position. 	4. Reflected in Illustrative ED. A BC will be included in draft ED.
September 2024	5. The order of liquidity and mixed presentation approach for presenting the Statement of Financial Position should be retained in the IED, consistent with existing requirements in IPSAS 1.	5. In progress.
June 2024	1. The requirements for presenting the Statement of Financial Position should be aligned with IFRS 18, which is consistent with existing requirements in IPSAS 1.	1. Reflected in Illustrative ED. A BC will be included in draft ED.
March 2024	1. The definitions of financial statement elements: <ol style="list-style-type: none"> a) Should be included in the Definitions sections of the IED; b) To be aligned with the definitions of financial statement elements in the IPSASB Conceptual Framework (revised in October 2023). 	1. Reflected in Illustrative ED. A BC will be included in draft ED.

Agenda Item 7.1.3

March 2024	2. The CP should highlight the proposal to disclose a statement of financial position as at the beginning of the earliest comparative period, in certain circumstances.	2. In progress – to be discussed in Chapter 2 of the CP <i>General Presentation Requirements</i> .
March 2024	3. The existing general offsetting requirements in IPSAS 1 should be carried forward.	3. Reflected in Illustrative ED. A BC will be included in draft ED.
March 2024	4. The existing fair presentation and compliance with IPSAS disclosure requirements in IPSAS 1 should be carried forward into the illustrative ED.	4. Reflected in Illustrative ED. A BC will be included in draft ED.
December 2023	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.	1. In progress – will be considered as part of project discussions.
December 2023	2. Draft Chapter 1 of the CP appropriately reflects the project objectives, key drivers, scope, and reasons for conducting the project.	2. Draft CP reflects IPSASB comments.
December 2023	3. Draft Chapter 2 of the CP appropriately explains the purpose of financial statements based on the Conceptual Framework.	3. Draft CP reflects IPSASB comments.
September 2023	1. Approved the Project Brief for Presentation of Financial Statements project.	1. Project Brief . A BC will be included in draft ED.

**PRESENTATION OF FINANCIAL STATEMENTS:
 PROJECT ROADMAP**

Meeting	Completed Discussions / Planned Discussions:
December 2022	1. Project Inception – Discussion of project background and outcomes of scoping and research activities
June 2023	1. Project Inception – Development of Project Brief
September 2023	1. Project Inception – Educational Session on IPSAS 22, <i>Disclosure of Financial Information about the General Government Sector</i> and IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> 2. Project Inception – Approval of Project Brief
December 2023	1. Consultation Paper (CP) Development – Project Overview and Purpose of Financial Statements 2. CP Development – Discussion of Providing Presentation Options, Statement of Financial Performance, and Management-Defined Performance Measures (MPMs)
March 2024	1. CP Development – Discussion of General Presentation Requirements 2. CP Development – Discussion of Revenue and Expense Items Outside the Statement of Financial Performance
June 2024	1. CP Development – Discussion of Statement of Financial Position 2. Illustrative Exposure Draft (IED) Development – Review of Drafting
September 2024	1. CP Development – Review of Drafting 2. IED Development – Review of Drafting
December 2024	1. CP Development – Discussion of Statement of Financial Performance
March 2025	1. CP Development – Discussion of Statement of Financial Performance 2. CP Development – Discussion of Statement of Changes in Net Assets/Equity 3. CP Development – Review of Drafting 4. IED Development – Review of Drafting
June 2025	1. CP Development – Discussion of Remaining Issues (Disclosure in the Notes, remaining General Principles, Other IED elements, etc.) 2. CP Development – Review of Drafting 3. IED Development – Review of Drafting
September 2025	1. CP Development – Review of Drafting 2. IED Development – Review of Drafting 3. Approval of CP and IED

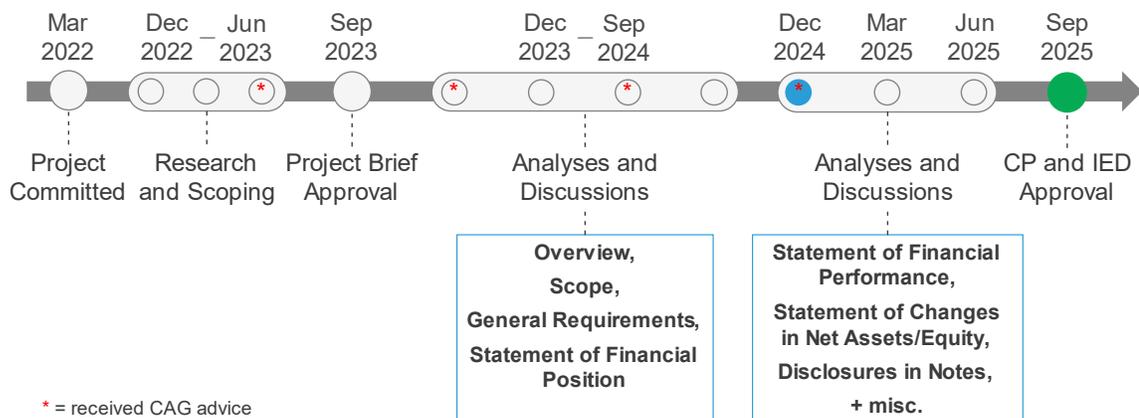
Project Overview and Next Steps

Purpose

1. To provide an overview of Presentation of Financial Statements project progress and next steps.

Background

2. The IPSASB added a project on the Presentation of Financial Statements to its work program in March 2022, based on responses to its 2021 Mid-Period Work Program Consultation. This project aims to enhance the communication effectiveness of financial information in public sector financial statements, focusing on the presentation² requirements in IPSAS. The IPSASB intends to develop a new IPSAS to replace IPSAS 1, *Presentation of Financial Statements*, to increase transparency, relevance, and understandability of information in the financial statements, and support decision-making and accountability.³
3. The IPSASB conducted research and scoping work to develop and approve a Project Brief for this major project in 2023, and has been actively engaged in both conceptual and technical discussions, with support from the CAG. The IPSASB intends to develop and approve a Consultation Paper (CP) and accompanying Illustrative Exposure Draft (IED) in September 2025:



Progress to Date

4. The project has evolved since the Project Brief as a result of subsequent developments, such as the release of IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024. Since then, the IPSASB has made several key decisions, which guides its strategic direction on this project:
 - (a) Align with IFRS 18;
 - (b) Consider public sector issues to determine appropriate or necessary deviations from IFRS 18;
 - (c) Remain consistent with the IPSASB's Conceptual Framework, and retain any elements of IPSAS 1 that remain relevant and appropriate; and

² "Presentation" focuses on the selection, location, and organization of information reported in general purpose financial statements.

³ The following statements are in the scope of this project: Statement of Financial Position, Statement of Financial Performance, and Statement of Changes in Net Assets/Equity. The Cash Flow Statement, which is addressed through IPSAS 2, *Cash Flow Statements*, will be considered in a future project.

- (d) Balance the need for structure (to provide comparability and consistency across entities and jurisdictions) and flexibility (to acknowledge that usefulness and understandability depend on entity- or jurisdiction-specific needs).
5. The IPSASB has taken a systematic approach to effectively navigate this complex project. When the IPSASB finishes discussing a specific topic, staff draft the relevant Chapter for the CP and guidance for the IED, for the IPSASB's review.

Project Plan

6. Considering the project's evolution and recent changes in Staff and Task Force Chair, staff reviewed progress-to-date and considered next steps. The current progress and proposed next steps are:

Topics	Discussion(s)	CP Development	IED Development
Project Overview and Development			
<ul style="list-style-type: none"> • Objective and Scope • Development Approach 	Completed (+ CAG advice)	Reviewed	Reviewed
Purpose of FS / General Principles			
<ul style="list-style-type: none"> • Objective and Purpose of FS • FS Users and Information Needs 	Completed	Reviewed	Reviewed
<ul style="list-style-type: none"> • Definitions of FS Elements • Comparative Info • Fair Presentation and Compliance • Offsetting • Aggregation and Disaggregation 	Completed	Q1 2025	Reviewed
<ul style="list-style-type: none"> • Materiality • Going Concern 	Q2 2025	Q2 2025	Q2 2025
<ul style="list-style-type: none"> • Other sub sections [details to come] 	Ongoing	Q2 2025	Ongoing
Statement of Financial Position			
<ul style="list-style-type: none"> • Classification (Assets, Liabilities) 	Completed (+ CAG advice)	Reviewed	Reviewed
<ul style="list-style-type: none"> • Totals / Subtotals 	Completed	Reviewed	N/A
<ul style="list-style-type: none"> • Line Items 	Completed	Reviewed	Reviewed
Statement of Financial Performance			
<ul style="list-style-type: none"> • Classification (Revenues, Expenses) • Totals / Subtotals 	Ongoing (7.2.2 and 7.2.3)	Q1 2025	Q1 2025
<ul style="list-style-type: none"> • Line Items 	Q1 2025	Q2 2025	Q2 2025
<ul style="list-style-type: none"> • Items Outside Surplus/Deficit 	Ongoing (7.2.4 + CAG advice)	Q1 2025	Q1 2025
Statement of Changes in Net Assets/Equity			
<ul style="list-style-type: none"> • Classification (Net Assets/Equity) • Reconciliation • Presentation / Disclosures 	Q1 2025	Q2 2025	Q2 2025
Disclosures in the Notes			
<ul style="list-style-type: none"> • Management-Defined Performance Measures 	Ongoing Q2 2025	Q3 2025	Q3 2025
<ul style="list-style-type: none"> • Structure • Accounting Policies • Key Sources: Estimation Uncertainty • ...etc. 	Q2 2025	Q3 2025	Q3 2025
Other Elements of IED			
<ul style="list-style-type: none"> • Other Sections [details to come] 	Q3 2025	Q3 2025	Q3 2025

7. The IPSASB and staff will continue actively working towards its intended approval in September 2025. Staff will provide updates at each IPSASB meeting.

Statement of Financial Performance – Categories

Question

1. Does the IPSASB agree to require entities to classify and present revenue and expense items in categories on its Statement of Financial Performance, in alignment with IFRS 18 *Presentation and Disclosure in Financial Statements* and supplemented by public sector specific guidance?

Recommendations

2. Staff recommend the IPSASB propose the following in its Consultation Paper (CP):
 - (a) Require entities to classify and present revenue and expense items in categories on the Statement of Financial Performance, to help users of financial statements better understand, analyze, and compare financial performance information; and
 - (b) Align with IFRS 18 and its categories, and provide additional guidance to help public sector entities understand the purpose, intention, and composition of each category.

Background

3. The Statement of Financial Performance⁴ is a key source of financial information for users of public sector financial statements. IPSAS 1, *Presentation of Financial Statements*, first issued in 2000, requires all revenues and expenses in the period to be presented in this statement (unless another IPSAS requires otherwise).⁵ IPSAS 1 sets minimum presentation and disclosure requirements, allowing substantial flexibility for public sector entities to present and disclose additional information it deems material and relevant to its financial statement users and faithfully representative of that information.
4. The IASB issued IFRS 18 in April 2024, which replaces IAS 1 *Presentation of Financial Statements*. Since its issuance, the IPSASB has confirmed that the objective and role of financial statements are the same in the public sector and private sector, and has aligned with IFRS 18 and deviate only when there is a public sector reason to do so.
5. The IPSASB has not discussed the Statement of Financial Performance since its initial exploratory discussion during the December 2023 breakout session, where participants shared preliminary views on requiring categorization and new subtotals. This paper continues the discussion on classifying revenue and expense items into categories, considering the developments in paragraph 4.

Analysis

What are the Benefits of IFRS 18?

6. IFRS 18 introduces new requirements to improve how private sector entities communicate information in their financial statements. The most substantial changes from IAS 1 relate to the Statement of Profit or Loss (equivalent to the public sector's Statement of Financial Performance). IAS 1 provided minimal guidance on the presentation of financial performance information. IFRS 18

⁴ IPSAS 1, *Presentation of Financial Statements* paragraph 22 notes that the statement of financial performance may also be referred to as a statement of revenues and expenses, an income statement, an operating statement, or a profit and loss statement. Paragraphs 99-117 provides guidance related to the structure and content of statements of financial performance.

⁵ The classification and presentation of revenues and expenses are largely based on non-authoritative examples in IPSAS 1 and are consistent with the IPSASB Conceptual Framework paragraph 5.32.

introduced new requirements for entities to classify its income and expenses into five specific categories, and present two new defined subtotals.

7. These new requirements are in direct response to stakeholder feedback and are primarily influenced by the **information needs of financial statements users** in the private sector:
 - (a) Potential for Improvement: IAS 1 lacked specific requirements, resulting in diversity in reporting, and the varied structure and content posed challenges for users of financial statements to understand, analyze, and compare financial performance information.
 - (b) Benefits of IFRS 18 Requirements: Introducing a formal structure, through *defined categories* and *new subtotal requirements*, better meets financial statement users' information needs because it reduces diversity in reporting and improves communications, thereby helping users better understand, analyze, and compare information in the Statement of Profit or Loss.

Analysis Approach

8. To determine whether to align with IFRS 18, the IPSASB should consider whether IFRS-aligned requirements would provide similar benefits to the public sector, and whether there are any public sector reasons to deviate. To support the IPSASB, staff considered feedback from the December 2023 breakout discussions, research and scoping activities, and broader constituent comments, to answer following questions:
 - (a) *Is there a similar potential for improvement in the public sector?* Yes, see paragraphs 9-11.
 - (b) *Is categorization, as a concept, useful in the public sector?* Yes, see paragraphs 12-14.
 - (c) *Is categorization, using the same terms as in IFRS 18, appropriate in the public sector?* Yes, if supplemented with public sector guidance. See paragraphs 15-19.

[A] Is there a similar potential for improvement in the public sector?

9. The exact nature of financial statements information needs differs in the public versus private sector:
 - (a) In the public sector, users seek information to assess the entity's accountability of resources entrusted to it, its ability to continue providing goods or services at a given level, and resources that may be needed to continue to meet its service delivery objectives; whereas
 - (b) In the private sector, users seek information to assess the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's economic benefits.
10. However, the public sector and private sector share the same intentions and challenges in supporting the information needs of their respective financial statement users:
 - (a) The IPSASB previously confirmed that the objective and role of financial statements is the same: to provide financial information about a reporting entity that is useful to financial statements users, and in a structured format so that users can obtain an understandable overview, make comparisons, and identify further information to obtain⁶;

⁶ These overarching similarities have played an important role in the IPSASB's decisions to develop IPSAS by aligning with IFRS and making necessary adjustments to reflect public sector differences. In the context of financial statements: (a) IPSAS 1 is primarily drawn from IAS 1 (2003), with some public sector adjustments (primarily for terminology, guidance regarding going concern, and specific presentation choices); and (b) IPSAS 2, *Cash Flow Statements* is primarily drawn from IAS 7 *Cash Flow Statements*, with some public sector adjustments (primarily for terminology, and consistency in definitions).

- (b) The Statement of Financial Performance / Profit or Loss is a key source of financial information for analyses and decision-making by users of the financial statements; and
 - (c) Similar to IAS 1, IPSAS 1 includes minimal requirements regarding the presentation and disclosure of financial performance information. As in the private sector, the lack of more specific requirements also results in diversity in practice in the public sector, which poses challenges for users of public sector financial statements to understand, analyze, and compare financial performance information. For example, comparable information is crucial to supporting an entity's ability to access capital markets.
11. The IASB identified a potential for improvement, by introducing more structure through presentation of revenues and expenses into specific categories. The potential for improvement also exists in the public sector.

[B] Is categorization, as a concept, useful in the public sector?

12. Public sector entities fulfill a broad set of responsibilities in delivering services to the public and can vary substantially in their roles and activities.
13. Conceptually, introducing a structured format would provide the same benefits to public sector financial statement users as in the private sector. Structure, through categorization of information, has previously proven useful for public sector financial statement users in understanding information in other primary financial statements. The introduction of categories to the Statement of Financial Performance would help financial statements users:
- (a) **Better understand and analyze** the entity's financial performance in executing its roles and conducting its activities, to assess progress towards its service delivery objectives and hold the entity accountable (i.e., see a clearer picture of financial performance, and the long-term sustainability of the entity's finances and key programs); and
 - (b) **More objectively compare** the entity's financial performance with similar entities (by remit, industry, etc.) within or across jurisdictions (i.e., reduce diversity and improve comparability).
14. Thus, requiring entities to categorize financial performance information would also be beneficial to, and help fulfill the needs of, financial statement users in the public sector.

[C] Is categorization, using the same terms as in IFRS 18, appropriate in the public sector?

15. IFRS 18 introduces new requirements for entities to classify its income and expenses into five specific categories, to improve how entities communicate financial performance to their financial statement users and support analysis, comparisons, and decision-making. Three categories are new: Operating, Investing, and Financing. [Appendix 1](#) summarizes IFRS 18 categorization requirements and the IASB's rationale.
16. As presented above, categorization of financial performance information would conceptually benefit users of public sector financial statements, by helping them better understand, analyze, and compare financial performance information. Practically, the IPSASB should consider whether IFRS 18's categories are appropriate for the public sector. Some 2023 breakout participants explicitly questioned whether the Operating, Investing, and Financing categorizations were appropriate.
17. Staff considered how transactions could be classified into categories and the IASB's rationale in [Appendix 2](#), and noted:

- (a) **The types of transactions classified into Operating, Investing, or Financing categories would likely be the same** – There is strong alignment between how private sector income and expenses and public sector revenues and expenses would be classified into categories, as the applicable IPSAS is aligned with the applicable IFRS for those transactions;
 - (b) **Information, as presented in these categories, are also useful for the public sector** – Users of financial statements in the public sector are also interested in understanding revenues received and expenses incurred in delivering the entity’s core public service delivery objectives (operating), from investments of resources to maintain service delivery over the medium to long term (investing), and from servicing debt obligations (financing);
 - (c) **Stakeholders in the private sector also shared reservations on category names/terms** – During the development of IFRS 18, stakeholders noted that both the Statement of Cash Flows and Statement of Profit or Loss use the terms “Operating”, “Investing”, and “Financing”, but in different ways. Some stakeholders suggested the IASB use different labels for the categories in the statement of Profit or Loss to avoid confusion; and
 - (d) **The category names are not required labels, but prompt entities to consider and provide information in a meaningful way** – The classification requirement is intended to meet the objective of the primary financial statement. By classifying financial performance information into categories, an entity is encouraged to objectively consider its revenue and expenses, and present information in a way that faithfully represents the characteristics of that information.
18. From a standard-setting perspective, the IPSASB has two options regarding the terminology for categories in the Statement of Financial Performance: (1) use IFRS 18’s category terms, with additional guidance to help public sector entities consider and classify revenue and expense items; or (2) use new public-sector specific category terms.
19. Based on its analysis in [Appendix 2](#), staff are of the view that, on balance, Option 1 better supports public sector entities in considering and classifying revenues and expenses, to help users of their financial statements understand, analyze, and compare financial performance, as it:
- (a) Maintains alignment with IFRS 18, as there is no substantial reason to deviate from its requirements to categorize financial performance information in the five categories; and
 - (b) Allows the IPSASB to incorporate public-sector-specific guidance, similar to other IFRS-aligned IPSAS, to help public sector entities consider and classify items in a meaningful manner.

Staff Recommendations

20. Based on this analysis, staff propose that the IPSASB:
- (a) Require public sector entities to classify revenue and expense items into categories because it would better support users of public sector financial statements in understanding, analyzing, and comparing financial performance information; and
 - (b) Use the IFRS 18 categories and to provide additional guidance to help public sector entities understand the purpose, intention, and composition of each category.

Next Steps

21. Based on the IPSASB’s decisions on this Agenda Item, staff will work on the following, for the IPSASB’s review in March 2025:

- (a) Consider the implications on other elements of the Statement of Financial Performance (e.g., presentation and disclosure of specific line items in the statement, and classifying and presenting operating expenses by nature or function); and
- (b) Begin drafting Chapter 4 of the CP and the relevant Illustrative ED sections.

Decision Required

- 22. Does the IPSASB agree with the Staff [recommendations](#)?

Appendix 1 – IFRS 18 Requirements: Categorization in the Statement of Profit or Loss

This Appendix provides a summary of the key categorization requirements in IFRS 18 for the Statement of Profit or Loss, for information purposes.

IFRS 18	Purpose and Rationale (FS User Benefits)	Additional Detail
<p>STRUCTURE USING CATEGORIZATION</p>	<p>Classify and present income and expenses in a consistent structure to:</p> <ul style="list-style-type: none"> • Support analyses and comparisons, and • Improve how entities communicate financial performance to their financial statement users to support better decision-making 	<ul style="list-style-type: none"> • Entities must <u>classify</u> income and expenses into 5 categories • 3 of the 5 categories are new: Operating, Investing, Financing
<p>Category: Investing</p>	<ul style="list-style-type: none"> • Enable users of financial statements to analyze an entity’s investment returns separately from its operations 	<ul style="list-style-type: none"> • Includes: <ul style="list-style-type: none"> ○ Income and expenses from assets that generate returns individually and largely independently from the entity’s business activities (such as debt and equity investments, and investment properties) (e.g., interest, dividends, rental income, depreciation, impairment losses / reversals, fair value gains / losses) ○ Income and expenses from cash and cash equivalents, and investments in associates, joint ventures, and unconsolidated subsidiaries • Income and expenses from those assets comprise (1) that’s generated by those assets, (2) that arises from initial/subsequent measurement, and derecognition of those assets, and (2) incremental costs directly attributable to acquisition/disposal
<p>Category: Financing</p>	<ul style="list-style-type: none"> • Enable users of financial statements to analyze an entity’s performance separately from the effects of financing 	<ul style="list-style-type: none"> • Identify and distinguish between: <ul style="list-style-type: none"> ○ Liabilities from “pure” financing transactions, where the entity receives finance and later returns cash or its own equity instruments (e.g., loans, bonds, etc.) ○ Other liabilities that arise from transactions that do not only involve raising finance (e.g., lease liabilities, pension liabilities, etc.) • Includes any income and expenses that are financing by nature: <ul style="list-style-type: none"> ○ Income and expenses from initial/subsequent measurement and derecognition of “pure” financing liabilities (e.g., interest expenses, dividends, fair value gains/losses, etc.) ○ Interest income and expenses on other liabilities by applying other IFRS, from changes in interest rates (e.g., lease liabilities, pension liabilities, etc.)

IFRS 18	Purpose and Rationale (FS User Benefits)	Additional Detail
<p>Category: Operating</p>	<ul style="list-style-type: none"> Provide complete picture of an entity's operations Is aligned with how users of financial statements typically consider and measure the entity's performance 	<ul style="list-style-type: none"> Consists of all income and expenses <u>not</u> classified in the other 4 categories Is the "default" category, which: <ul style="list-style-type: none"> Includes all income and expenses arising from operations, regardless of whether they are volatile or unusual Includes, but is not limited to, income and expenses from a company's main business activities
<p>Category: Income taxes</p>	<ul style="list-style-type: none"> Provide useful information to enable users of financial statements to analyze an entity's performance 	<ul style="list-style-type: none"> Presents income tax expenses (or tax income), in accordance with IAS 12 <i>Income Taxes</i> and any related foreign exchange differences by applying IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>
<p>Category: Discontinued operations</p>	<ul style="list-style-type: none"> Provide useful information to enable users of financial statements to analyze an entity's performance 	<ul style="list-style-type: none"> Presents income and expenses from discontinued operations recognized in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>
<p>Consider: Companies with specified main business activities</p>	<ul style="list-style-type: none"> Acknowledges that some entities have multiple main business activities Prompts the entity to reclassify specific income or expenses from two types of business activities, to better reflect the characteristics of that financial information for users of the financial statement 	<ul style="list-style-type: none"> Entities must assess, using judgment and as a matter of fact, whether it has a <u>main</u> business activity of either: <ul style="list-style-type: none"> Investing in particular types of assets (investing in assets, such as investment entities, investment property companies, and insurers) or Providing financing to customers (such as banks, lending institutions, entities that provide financing to customers to enable them to buy the entity's products, lessors that provide financing to customers in finance leases) If so, the entity must classify some income and expenses in the operating category (which would have been classified in the investing or financing category if it were not a main business activity)

Appendix 2 – Detailed Analysis

Considering Application in the Public Sector

1. *Usefulness*: Staff considered whether presenting information in IFRS 18’s categories would be useful for the public sector and provide similar benefits. Staff note that financial statements users in the public sector would also be interested in understanding:
 - (a) Revenues received and expenses incurred in delivering the entity’s core public service delivery objectives (*operating*), including whether the current levels of revenues (e.g., taxes, levies, etc.) is sufficient to maintain the volume and quality of services currently provided;
 - (b) Revenues and expenses arising from investments of resources to maintain service delivery over the medium to long term (*investing*), and
 - (c) Revenues and expenses arising from servicing debt obligations (*financing*).
2. *Focus on Nature and Substance*: Public sector entities receive revenues and incur expenses through various transactions and in different ways. The requirement to classify revenues and expenses into categories prompts the entity to consider the nature and economic substance of those revenues and expenses. For example, if an entity receives revenue that is subject to appropriations, the entity must consider the nature and substance of the revenue itself and may conclude that it is an investment return (*investing* category) or perhaps revenue from its operations (*operating* category).
3. *Relevant Standards for Revenue and Expenses from Transactions*: Staff considered the types of transactions that would be classified into the five categories (summarized in [Appendix 1](#)), and whether the applicable IFRS and IPSAS for those transactions are aligned. Staff’s view is that there is strong alignment between (1) private sector income and expenses and (2) public sector revenues and expenses that would be classified under these categories:

IFRS 18 Category	Relevant IFRS	Aligned IPSAS
Investing	Accounting resulting from Accounting Boundaries: <ul style="list-style-type: none"> IAS 27 <i>Separate Financial Statements</i> IAS 28 <i>Investments in Associates and Joint Ventures</i> IFRS 10 <i>Consolidated Financial Statements</i> Accounting resulting from application of: <ul style="list-style-type: none"> IFRS 9 <i>Financial Instruments</i> Certain Standards related to Assets 	Accounting resulting from Accounting Boundaries: <ul style="list-style-type: none"> IPSAS 34, <i>Separate Financial Statements</i> IPSAS 36, <i>Investments in Associates and Joint Ventures</i> IPSAS 35, <i>Consolidated Financial Statements</i> Accounting resulting from application of: <ul style="list-style-type: none"> IPSAS 41, <i>Financial Instruments</i> Certain Standards related to Assets
Financing	Accounting resulting from application of: <ul style="list-style-type: none"> IFRS 9 IFRS 15 <i>Revenue from Contracts with Customers</i> IFRS 16 <i>Leases</i> IAS 19 <i>Employee Benefits</i> IAS 26 <i>Accounting and Reporting by Retirement Benefit Plans</i> 	Accounting resulting from application of: <ul style="list-style-type: none"> IPSAS 41 IPSAS 47, <i>Revenue</i> IPSAS 43, <i>Leases</i> IPSAS 39, <i>Employee Benefits</i> IPSAS 49, <i>Retirement Benefit Plans</i>

IFRS 18 Category	Relevant IFRS	Aligned IPSAS
Operating	Multiple – this is a “default” (residual) category. Transactions accounted for using a variety of Standards may be classified into this category.	Multiple – this is a “default” (residual) category. Transactions accounted for using a variety of Standards may be classified into this category.
Income taxes	Income taxes under IAS 12 <i>Income Taxes</i>	N/A – no comparable IPSAS. Any public sector entities subject to income taxes would apply relevant international or national accounting standards.
Discontinued operations	Discontinued operations under IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Discontinued operations under IPSAS 44, <i>Non-current Assets Held of Sale and Discontinued Operations</i>

Understanding the IASB’s Rationale

4. Staff reviewed the IASB’s Basis for Conclusions to better understand:
- (a) What was the IASB’s rationale for introducing this classification requirement into its statement of financial performance? – The new structure requirement in IFRS 18 is **intended to address the specific information needs of users of financial statements for the statement of profit or loss.**
 - (b) Are the classifications aligned with requirements in IAS 7 *Cash Flow Statements*? – IFRS 18 requires an entity to classify and present income and expenses in one of five categories, including “Operating”, “Investing”, and “Financing” categories. IAS 7 also uses these terms but in a different context: requiring an entity to classify and present cash flows as “Operating”, “Investing”, and “Financing” activities.
 - (i) While both IFRS 18 and IAS 7 use the terms “Operating”, “Investing”, and “Financing” to classify financial information, the classification itself is not the same.⁷
 - (ii) When developing IFRS 18, the IASB decided to **require a structure that achieves the objective of the statement of profit or loss, instead of alignment with the statement of cash flows.**
 - (c) Are the category names required labels? – Some stakeholders suggested the IASB use different labels or names for the categories (for example, replacing “Investing category” with “non-operating category” to differentiate it from investing activities in the cash flow statement). While the IASB developed requirements on the structure of the statement of profit or loss, IFRS 18 does not require entities to label each category. The IASB concluded that using different labels would not affect the presentation of items in the categories. **An entity should choose labels that faithfully represent the characteristics of the financial information to address the information needs of financial statement users.**

⁷ IAS 7.11 states “Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents.” IFRS 18.BC81 explains that the categorization of income and expenses is intended to increase the comparability and understandability of financial performance information. In IFRS 18.BC86, the IASB noted that the investing category in the statement of profit or loss is different from “investing activities” as defined in IAS 7. Under IAS 7, *investing* activities include investments in operating assets such as property, plant, and equipment, but income and expenses from those operating assets would be classified as *operating* under IFRS 18.

Using IFRS 18's Categories: Benefits and Challenges

5. Conceptually, categorization adds structure to help public sector entities provide better information to its financial statement users. Practically, from a standard-setting perspective, staff noted that there are two potential approaches. On balance, Option 1 would better support the international public sector in considering and classifying revenues and expenses and support users of entity's financial statements in understanding and analyzing its financial performance. In addition, it would better align with the IPSASB's past practice:

	Option 1: Use IFRS 18 terms, with additional public sector guidance	Option 2: Use different, public sector specific terms
Benefits	<ul style="list-style-type: none"> • Maintains IFRS alignment, as originally intended • “Operating” “Investing” and “Financing” are well-understood, conceptually and intuitively • Provides public sector specific guidance, similar to other IFRS-aligned IPSAS, to help entities consider and classify public sector items in a meaningful manner. For example, how can an entity consider whether tax revenues should be classified in the operating category? 	<ul style="list-style-type: none"> • Consider categories that are prevalent in the public sector and would resonate with public sector entities
Challenges	<ul style="list-style-type: none"> • May be difficult to balance between principled vs. rules-based approach 	<ul style="list-style-type: none"> • Reduces IFRS alignment • Limited consensus on alternative terms that better resonate with all public sector entities, which vary substantially within and across jurisdictions

Statement of Financial Performance – Totals and Subtotals

Question

1. Does the IPSASB agree to require entities to present totals and subtotals on its Statement of Financial Performance, in alignment with IFRS 18 *Presentation and Disclosure in Financial Statements*, with adjustments for the public sector, and permit certain additional subtotals?

Recommendations

2. Staff recommend the IPSASB propose the following in its Consultation Paper (CP):
 - (a) Require entities to present the total, *surplus or deficit*, as previously required in IPSAS 1, *Presentation of Financial Statements*, as it remains a useful metric for an entity's overall financial performance and is aligned with IFRS 18;
 - (b) Require entities to present two new defined subtotals, *operating surplus or deficit* and *surplus or deficit before financing*, aligned with IFRS 18, with adjustments for the public sector; and
 - (c) Permit entities to present additional subtotals, if they meet the requirements outlined in paragraph 18.

Background

3. The Statement of Financial Performance is a key source of financial information for users of public sector financial statements. Currently, IPSAS 1 requires an entity to present the total *surplus or deficit*⁸ for the period on its Statement of Financial Performance but does not require the presentation of other subtotals.
4. The IPSASB has not discussed the Statement of Financial Performance since its initial exploratory discussion during the December 2023 breakout session, where participants shared preliminary views on requiring categorization and new subtotals. This paper continues the discussion on presenting totals and subtotals on the Statement of Financial Performance and builds on the information and analysis presented in [Agenda Item 7.2.2](#).

Analysis

What are the Benefits of IFRS 18?

5. As presented in [Agenda Item 7.2.2](#), IFRS 18 introduces new requirements to improve how private sector entities communicate information in their financial statements. The most substantial changes from IAS 1 *Presentation of Financial Statements* relate to new requirements on the structure of the Statement of Profit or Loss (equivalent to the public sector's Statement of Financial Performance).
6. These new requirements are in direct response to stakeholder feedback and are primarily influenced by the **information needs of financial statements users** in the private sector:
 - (a) Potential for Improvement: IAS 1 lacked specific requirements, resulting in diversity in reporting, and the varied structure and content posed challenges for users of financial statements to understand, analyze, and compare financial performance information.

⁸ IPSAS does not define "surplus or deficit" but offers a description in IPSAS 1 paragraph 99. All items of revenue and expenses recognized in the period are to be included in surplus or deficit unless another IPSAS requires otherwise.

- (b) Benefits of IFRS 18 Requirements: Introducing a formal structure, through *defined categories* and *new subtotal requirements*, better meets financial statement users' information needs because it reduces diversity in reporting and improves communications, thereby helping users better understand, analyze, and compare information in the Statement of Profit or Loss.
7. Individually, the requirement to classify revenue and expense items in defined categories and the requirement to present the two new defined subtotals each help to provide a consistent structure to the Statement of Profit or Loss. Collectively, the two requirements complement each other and amplify the overall benefits to public sector financial statement users.

Analysis Approach

8. Staff took an objective approach in [Agenda Item 7.2.2](#) to determine whether IFRS-aligned requirements would provide similar benefits to the public sector, and whether there are any public sector reasons to deviate. To support the IPSASB, staff considered feedback from the December 2023 breakout discussions, research and scoping activities, and broader constituent comments, to answer following questions:
- (a) *Is there a similar potential for improvement in the public sector?* Yes, see paragraphs 9-11.
- (b) *Are totals and subtotals, as a concept, useful in the public sector?* Yes, see paragraphs 12-14.
- (c) *Is the existing total, as required in IAS 1 and IFRS 18, appropriate to retain?* Yes, see paragraph 15.
- (d) *Are the new defined subtotals, as required in IFRS 18, appropriate in the public sector?* – Yes, with adjustments for public sector terminology. See paragraphs 16-18.

[A] Is there a similar potential for improvement in the public sector?

9. [Agenda Item 7.2.2](#) noted that the public and private sectors share the following in supporting the information needs of their respective financial statement users: the objective and role of financial statements are to provide financial information that is useful to financial statement users, in a structured format, and the Statement of Financial Performance / Profit or Loss is a key source of financial information for analyses to support users' decision-making.
10. In addition, both IPSAS 1 and IAS 1 include minimal requirements regarding totals and subtotals and have faced similar challenges:
- (a) IPSAS 1 and IAS 1 only required an entity to present the total *surplus or deficit / profit or loss* for the period, and do not require the presentation of other subtotals; and
- (b) The lack of defined subtotals has resulted in diversity in reporting which impedes usefulness, understandability, and comparability:
- (i) In the public sector, jurisdictions are presenting subtotals that are not defined in IPSAS 1, and diversity in practice has resulted in different calculations and presentation of subtotals, thereby reducing the understandability and comparability of the financial information (see example of different presentations in [Appendix 2](#)); and

- (ii) In the private sector, the IASB also noted diversity in reporting, which has also posed challenges for financial statement users in understanding and comparing information.⁹ Stakeholders agreed that subtotals could result in useful information and improve comparability of financial information.

11. The IASB identified a potential for improvement, by introducing more structure through presentation of new defined subtotals. The potential for improvement also exists in the public sector.

[B] Are totals and subtotals, as a concept, useful in the public sector?

12. Conceptually, introducing a structured format would provide the same benefits to public sector financial statement users as in the private sector. Totals and subtotals would help provide a consistent structure in the Statement of Financial Performance and enhance the usefulness of the financial information for public sector financial statement users. In particular, the introduction of new defined subtotals would help users:

- (a) **Better understand and analyze** the entity's financial performance in executing its roles and conducting its activities, to assess progress towards its service delivery objectives and hold the entity accountable (i.e., see a clearer picture of financial performance, and the long-term sustainability of the entity's finances and key programs); and
- (b) **More consistently and objectively compare** the entity's financial performance with similar entities (by remit, industry, etc.) within or across jurisdictions (i.e., reduce diversity and improve comparability).

13. During the 2023 breakout session, participants generally agreed that requiring new defined subtotals would be useful to provide a meaningful understanding of the entity's financial performance and serve as a starting point for analysis to support user needs and decision-making purposes.

14. Thus, requiring entities to present totals and subtotals would also be beneficial to, and help fulfill the needs of, financial statement users in the public sector.

[C] Is the existing total, as required in IAS 1 and IFRS 18, appropriate to retain?

15. As mentioned above, IPSAS 1 and IAS 1 both require entities to present the total *surplus or deficit* for the period in the Statement of Financial Performance / *profit or loss* for the period in the Statement of Profit or Loss. This total is a fundamental metric, that clearly communicates the entity's overall financial performance and remains useful for financial statement users. Retaining this requirement in IPSAS would continue to serve the needs of public sector financial statement users, and also align with the IASB's decision to retain this requirement in IFRS.

[D] Are the new defined subtotals, as required in IFRS 18, appropriate in the public sector?

16. IFRS 18 introduces new requirements for entities to present two new defined subtotals (*operating profit or loss*, and *profit before financing and income taxes*) to provide financial statement users with comparable measures of financial performance as starting points for their analyses. IFRS 18 also retains the requirement to present the total *profit or loss* and permits entities to present additional subtotals. [Appendix 1](#) summarizes these IFRS 18 requirements and the IASB's rationale.

⁹ See IFRS 18 paragraph BC81. Structures and subtotals varied not only by entity, but also within the same industry. During its development, the IASB sampled 100 companies and noted that the majority reported an "operating profit" subtotal, but there was significant diversity in the calculation of that subtotal (over 9 different calculations/definitions).

17. As noted above, presenting totals and subtotals on the Statement of Financial Performance would conceptually benefit users of public sector financial statements by providing a more consistent structure, thereby addressing the existing challenges and improving comparability of financial information. The new subtotals would be useful and appropriate in the public sector if adapted:
- (a) *Operating surplus or deficit* adapts IFRS 18's "operating profit or loss" to reflect public sector terminology. This subtotal is particularly important and useful to provide users of public sector financial statements an understanding of the current level of revenues (e.g., from taxes, levies, and other sources) and whether it is sufficient to maintain the volume and quality of services currently provided and achieve future service delivery activities and objectives¹⁰; and
 - (b) *Surplus or deficit before financing* adapts IFRS 18's "profit before financing and income taxes" to reflect public sector terminology, the importance of communicating performance before financing considerations, and the limited prevalence of income taxes in the public sector.
18. Some 2023 breakout participants inquired whether the IPSASB should add and define other subtotal requirements. However, staff note that stakeholders have encouraged the IPSASB to consider and maintain a level of flexibility, as financial information needs may still vary within and across jurisdictions. In practice, additional subtotals that may be useful in one jurisdiction, may not be useful for another, and it may be challenging to reach consensus on additional subtotals that are prevalent and relevant for all public sector entities. Thus, staff's view is that the IPSASB can take a similar approach as the IASB, and permit public sector entities to present additional subtotals so long as they provide a useful summary that is comprised of amount recognized and measured in accordance with IPSAS, compatible with the statement structure, consistent from period to period, and displayed no more prominently than the totals and subtotals required by IPSAS.¹¹

Staff Recommendations

19. Based on the above analysis, staff propose that the IPSASB:
- (a) Retain the IPSAS 1 requirement (paragraph 102) to present *surplus or deficit* as it remains a useful metric of an entity's overall financial performance;
 - (b) Require entities to present two new defined subtotals, IFRS 18 aligned, with adjustments for public sector application: *Operating surplus or deficit*; and *Surplus or deficit before financing*;
 - (c) Permit entities to present additional subtotals, if they meet the requirements in paragraph 18.
20. Together with the proposals in [Agenda Item 7.2.2](#), these presentation requirements would provide a useful structured summary of financial performance information, to help users of financial statements better understand, analyze, and compare this information.

Next Steps

21. Based on the IPSASB's decisions on this Agenda Item, staff will begin drafting Chapter 4 of the CP and the relevant Illustrative ED sections.

Decision Required

22. Does the IPSASB agree with the Staff [recommendations](#)?

¹⁰ Consistent with IPSASB Conceptual Framework paragraph 2.12.

¹¹ IASB provides its rationale in its Basis for Conclusions (IFRS 18 paragraphs BC59-BC61).

Appendix 1 – IFRS 18 Requirements: Totals and Subtotals in the Statement of Profit or Loss

This Appendix provides a summary of the totals and subtotal requirements in IFRS 18 for the Statement of Profit or Loss, for information purposes.

IFRS 18	Purpose and Rationale (FS User Benefits)	Additional Detail
STRUCTURE USING SUBTOTALS	Present totals and subtotals provide useful information to financial statement users in a consistent structure, thereby improving comparability.	<ul style="list-style-type: none"> • Entities must present three specific totals and subtotals • Entities are permitted to present additional subtotals (e.g., profit from continuing operations)
Operating profit or loss	<ul style="list-style-type: none"> • A metric to enable analysis by users of financial statements as a comparable measure of financial performance, and a starting point for forecasting cash flows 	<ul style="list-style-type: none"> • Present a new defined subtotal, which comprises all income and expenses classified in the operating category
Profit before financing and income taxes	<ul style="list-style-type: none"> • A metric to enable analysis by users of financial statements as a comparable measure of financial performance independently from how the entity is financed • To understand financial performance independently from the effects of financing 	<ul style="list-style-type: none"> • Present a new defined subtotal, which comprises operating profit or loss, and all income and expenses classified in the investing category
Profit or loss	<ul style="list-style-type: none"> • A metric to provide overview of financial performance 	<ul style="list-style-type: none"> • Present a total of all income, less all expenses in the statement of profit or loss

Appendix 2 – Example of Challenges with Existing Requirements

Currently, IPSAS 1 requires an entity to present the total, *surplus or deficit*, for the period on its Statement of Financial Performance. It does not require the entity to present other subtotals, nor define such subtotals. This has resulted in various challenges in the public sector, such as:

- 1. Reduced usefulness and comparability** – Subtotals can provide useful information to support analysis, comparisons, and decision-making. However, the lack of defined subtotals can pose various risks and impede the usefulness to financial statement users.
- 2. Diversity in practice** – One example is “operating surplus or deficit”. In many jurisdictions, central governments are currently presenting an “operating surplus or deficit” (or similar subtotal) in the Statement of Financial Performance to provide a measure of financial performance that reflects the delivery of core public service activities in the financial period. However, IPSAS does not currently define nor require “operating surplus or deficit.” As a result, there is no consistent approach to calculating this subtotal, because decisions made at the jurisdiction- or entity- level may vary. The following three central government level examples are provided for illustrative purposes:

Philippines National Government

Statement of Financial Performance For the year ended 31 December 2021
Revenue Taxation revenue Sale of goods and services Interest revenue Dividend revenue Other gains on non-financial assets Other revenue
Total revenue
Expenses Transfer payments and subsidies Personnel expenses Depreciation Interest expense Other operating expenses
Total current operating expenses
Surplus/(Deficit) from current operations
Net assistance subsidy Other non-operating income Sale of assets Reversal of impairment loss Fair value gains on financial instruments Miscellaneous income Losses Loss on sale of property ... Loss on foreign exchange
Surplus/(deficit) for the year

Australian Government

Statement of Operations For the year ended 30 June 2023
Revenue from transactions Taxation revenue Sale of goods and services Interest revenue Dividend revenue Other revenue
Total revenue
Expenses Transfer payments and subsidies Personnel expenses Depreciation Interest expense Other operating expenses
Total expenses
Net operating balance
Other economic flows Gains/(losses) on financial instruments
Operating result

HM Treasury – Whole of Government Accounts

Statement of Revenue and Expenditures For the year ended 31 March 2022
Revenue from transactions Taxation revenue Sale of goods and services Interest revenue Dividend revenue Other revenue
Total public service revenue
Expenses Transfer payments and subsidies Personnel expenses Depreciation Interest expense Other operating expenses
Total expenditure on public services
Net expenditure on public services
Financing costs of long-term liabilities Revaluation of financial assets and liabilities
Net income/(expenditure) for the year

Enhancing Transparency of Revenue and Expense Items Recognized Outside of Surplus or Deficit

Purpose

1. In December 2024, IPSASB members, technical advisors, and observers will participate in breakout group discussions on *how to present revenue and expense items recognized outside of surplus or deficit*, in order to enhance transparency and understanding of this financial information. This paper presents relevant analysis and resources, and key questions to help participants discuss this topic.

Intended Outcome

2. Breakout participants are asked to review this Agenda Item to prepare for the discussions. At the end of the breakout session, please be ready to share views on the following:
 - (a) Is there a need for greater transparency and clearer communication of revenue and expense items recognized outside of surplus or deficit in the financial statements?
 - (b) If yes, would you recommend the IPSASB enhance transparency and communication by:
 - (i) *Location*: Requiring entities to present revenue and expense items recognized outside of surplus or deficit using Option(s) [X]?; and/or
 - (ii) *Terminology*: Describing these revenue and expense items recognized outside of surplus or deficit using the Term [Y] in its IPSAS guidance?

Background

3. In March 2024, IPSASB members, technical advisors, and observers engaged in preliminary discussions regarding the presentation of revenue and expense items recognized outside of surplus or deficit (directly in net assets/equity).¹² Based on these discussions, the IPSASB agreed that:
 - (a) Any new IPSAS presentation requirements should **enhance the transparency and understanding** of this financial information for its financial statement users, if greater transparency is needed; and
 - (b) From a conceptual standpoint, it would be more appropriate to **take an IFRS-aligned approach**. Thus, the IPSASB will not pursue a GFS-aligned approach.

Breakout Discussion Questions

4. The presentation of revenue and expense items recognized outside of surplus or deficit has not been discussed since March 2024. To progress this challenging discussion, staff request breakout participants consider the following questions to first identify public sector challenges and needs, and then consider ways to address those needs:
 - (a) The IPSASB agreed in March 2024 that any changes to current IPSAS presentation requirements should enhance transparency and understanding, if greater transparency is

¹² [March 2024 Agenda Item 12.2.6](#) provides useful background and research regarding presentations requirements in IPSAS, IFRS, and GFS. This paper incorporates feedback from the breakout discussion. The Presentation of Financial Statements project focuses on presentation requirements. Thus, this discussion does not consider the recognition and measurement requirements or which revenue and expense items are required to be recognized in surplus or deficit vs. directly in net assets/equity.

needed. *Do you believe there is a need for greater transparency and clearer communication of this information in the financial statements?* (See [\[Discussion A\] supporting analysis](#))

- (b) *If yes [there is a need and potential for improvement], how can the IPSASB enhance transparency and communication, and are there learnings from the private sector the IPSASB could leverage?* (See [\[Discussion B\] supporting analysis](#))

5. Staff will collect advice and feedback from the IPSASB CAG at its December 2024 meeting and share CAG member advice with the IPSASB at the start of its discussions.

[Discussion A] Considering Current IPSAS and Potential Gaps

6. The following analysis is intended to help breakout participants discuss the first question: *Do you believe there is a need for greater transparency and clearer communication of this information in the financial statements?*

Current IPSAS Guidance

7. Currently, IPSAS requires public sector entities to present revenue and expense items on one of the following two statements:
- (a) In *surplus or deficit* on the Statement of Financial Performance, which is a key source of financial information for users of public sector financial statements; or
 - (b) Outside of surplus or deficit, directly in *net assets/equity*, on the Statement of Changes in Net Assets/Equity, which often receives less attention from financial statements users.

[Appendix 1](#) provides examples of presentation requirements for revenue and expense items.

8. The IPSASB has not explicitly developed a basis to determine which revenue and expense items are presented in surplus or deficit (in the Statement of Financial Performance) vs. outside of surplus or deficit directly in net assets/equity (on the Statement of Changes in Net Assets/Equity). However, March 2024 breakout group participants have acknowledged that the allocation developed over time can be broadly summarized as follows:

Statement of Financial Performance	Statement of Changes in Net Assets/Equity
<ul style="list-style-type: none"> • Represents items within “ordinary operations” of the reporting entity to achieve its service delivery objectives • Includes realized gains and losses • Relates to transactions for which the reporting entity generally has a level of control 	<ul style="list-style-type: none"> • Represents items outside of “ordinary operations” of the reporting entity to achieve its service delivery objectives • Includes unrealized gains and losses • Relates to transactions for which the reporting entity generally does not have a level of control

9. This allocation of revenue and expense items has been aligned with the IASB’s allocation since 2000.¹³ Generally, revenues and expenses recognized outside of surplus or deficit (directly into net assets/equity) arise from specific remeasurements of certain assets and liabilities to current value.

¹³ Several IPSAS include guidance that requires an entity to recognize revenue or expense items directly in net assets/equity but do not provide the IPSASB’s rationale in the respective Basis for Conclusions. Only IPSAS 39, *Employee Benefits* paragraph BC14 explicitly notes that the requirement to recognize remeasurements of net defined liability(asset) in net assets/equity “would have the same accounting outcome as IAS 19, *Employee Benefits* in not impacting surplus or deficit with components of defined benefit cost that have different predictive values”.

Need for Greater Transparency and Clarity in Communications

10. Overall, revenues and expenses represent the increases and decreases in an entity's net financial position, other than ownership contributions or distributions.¹⁴ Separately presenting certain revenues and expenses *as part of surplus or deficit*, and other revenues and expenses *outside of surplus or deficit directly into net assets/equity*, can help financial statements users better understand the nature and quantity of changes in net position related to the entity's achievement of service delivery objectives that are realized and "in their control", and those that are not. However, these two groups of revenues and expenses (in surplus or deficit, vs. outside of surplus or deficit) are presented on two different Financial Statements.
11. Revenues and expenses *presented in surplus or deficit* on the Statement of Financial Performance:
 - (a) The analyses in Agenda Items [7.2.2](#) and [7.2.3](#) identified a need for greater transparency and communication, as it highlighted that the lack of specific presentation requirements in IPSAS 1, *Presentation of Financial Statements* results in diversity in reporting, thus posing various challenges for users of financial statements. Improving the structure of financial information on the Statement of Financial Performance would provide greater transparency and understanding of financial information.
 - (b) Staff recommended that the IPSASB add new categorization and total/subtotal requirements to provide a more structured and useful summary of financial information. This would help users of financial statements better understand, analyze and compare this information to assess the entity's financial performance in executing its roles and conducting its activities, and consider its progress towards its service delivery objectives.
12. Revenues and expenses *outside of surplus or deficit, presented directly in net assets/equity* on the Statement of Changes in Net Assets/Equity:
 - (a) Participants of the March 2024 breakout session agreed that it is important for a reporting entity to be transparent about all of its revenues and expenses in a reporting period. The IPSASB acknowledged that further analysis was necessary to determine whether current presentation requirements related to items recorded directly in net assets/equity effectively provide the needed transparency for accountability purposes.
 - (b) As noted above, revenue and expense items recognized directly in net assets/equity are also changes in an entity's net position, though they typically represent unrealized or "uncontrolled" changes. This information is useful for financial statement users to see and understand in order to obtain the full picture of changes in an entity's net financial position and its achievement of service delivery objectives.
 - (c) However, it could be argued that under current IPSAS, the presentation of these items directly in net assets/equity on the Statement of Changes in Net Assets/Equity may impede overall transparency and clarity of communications about these movements in the entity's net financial position. This is because this Statement is not used prevalently by users of public sector financial statements, and revenue and expense items recognized directly in net assets/equity have reduced visibility and thus less prominence than revenue and expense items recognized

¹⁴ This is based on the financial statement concepts in the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework).

in surplus or deficit in the Statement of Financial Performance. In addition, due to the lack of clarity in IPSAS 1, some constituents have noted that revenues and expenses recognized directly in net assets/equity are sometimes presented in an aggregated manner, which obscures the financial information.

- (d) Considering the need of financial statements users to fully understand the changes in an entity's net financial position, and the limitations of current IPSAS presentation requirements, there appears to be a need for greater transparency and clearer communication of this financial information to more effectively support the users.

Note for Breakout Participants

- 13. Breakout participants are asked to consider the above analysis and determine whether they agree that there is a need for greater transparency and clearer communication about revenue and expense items recognized outside of surplus or deficit, and that changes to presentation requirements are necessary.

[Discussion B] Enhancing Transparency and Communication

- 14. The following analysis is intended to help breakout participants discuss the second question: *If yes [there is a need and potential for improvement], how can the IPSASB enhance transparency and communications, and are there learnings from the private sector the IPSASB could leverage?*

Public Sector Considerations

- 15. Users of public sector financial statements comprise a broad group of users who receive public sector services or provide resources to fund those services. These users may have different levels of financial and accounting literacy, or perspectives through which they consider and understand information presented in public sector financial statements. This emphasizes the importance of identifying a presentation approach to enhance transparency and communications that is as industry/profession-agnostic as possible, using common and clear language.
- 16. In the context of presenting revenue and expense items recognized outside of surplus or deficit, this consideration influences the IPSASB's standard-setting decisions related to:
 - (a) *Location*: Where should financial information be presented that is accessible and understandable for financial statement users, to effectively convey the nature, substance, and importance of this financial information; and
 - (b) *Terminology*: Use terminology that succinctly captures the nature and substance of financial information, that resonates with the majority of users in the public sector.
- 17. The location and terminology used to present this financial information can individually and collectively help users of financial statements obtain a more comprehensive understanding of the changes in an entity's financial position and achievement of service delivery objectives, to overall support accountability and decision-making.

Location Options

- 18. The IPSASB has a few options regarding presentation requirements for revenue and expense items recognized outside of surplus or deficit. Staff identified three potential Options, each with benefits and drawbacks:

Options [1]	Benefits	Drawbacks
1: Relocate and present them as a <u>separate section</u> on the Statement of Financial Performance	<ul style="list-style-type: none"> • Presents all revenues and expenses in one location, that is already prevalently used by financial statement users to obtain an understanding of the entity's financial performance • Increases visibility of this financial information and provides users with a comprehensive picture of changes in an entity's net financial position (other than ownership contributions or distributions), and its achievement of service delivery objectives 	<ul style="list-style-type: none"> • May result in a very lengthy Statement of Financial Performance • May result in users' confusion / misunderstanding regarding the nature and substance of revenue and expense items inside vs. outside of surplus or deficit (given the greater visibility and prominence)
2: Relocate and present them on a <u>new, separate Statement</u>	<ul style="list-style-type: none"> • Increases visibility of this financial information and provides financial statement users with a comprehensive picture of changes in an entity's net financial position (other than ownership contributions or distributions), and its achievement of service delivery objectives • More clearly distinguishes between revenue and expense items related to the entity's achievement of service delivery objectives that are realized and "in their control", and those that are not • Better manages the length and volume of information on each Financial Statement 	<ul style="list-style-type: none"> • Presents all revenues and expenses across two Statements • Potential that new Statement does not receive sufficient attention from users, once introduced • May result in users' confusion / misunderstanding regarding the nature and substance of revenue and expense items inside vs. outside of surplus or deficit (given the greater visibility and prominence)
3: Continue presenting them as <u>separate components</u> on the Statement of Changes in Net Assets/Equity [2]	<ul style="list-style-type: none"> • Is consistent with current practice and familiar for users of financial statements 	<ul style="list-style-type: none"> • Does not achieve the goal of improving transparency and understanding of these revenue and expense items • Does not address the current visibility issues in current practice

[1]: These Options do not change the composition of, or overall recognition and measurement requirements related to, revenue and expenses recognized outside of surplus or deficit. These Options relate only to the presentation of the accounting results on the Financial Statements.

[2] If the IPSASB decides to proceed with Option 3, there may still be an opportunity to clarify the presentation requirements in IPSAS 1 paragraphs 118-119, though benefits may be limited.

19. *Pairing with Terminology Considerations:* Some of the drawbacks can be mitigated if the location decision is paired with terminology considerations (as presented in the next section) to more clearly communicate the nature and substance of these changes to an entity's net financial position. Identifying and using terminology that succinctly captures the different nature and substance of

revenue and expense items recognized in surplus or deficit vs. those recognized outside of surplus or deficit would help reduce potential confusion and misunderstanding by users.

20. *Learnings from the Private Sector*: The IASB first decided in 2007 to require entities to present all income and expense items separately from any changes in net assets that arise from transactions with owners. This is because income and expenses outside of profit or loss may still be significant in helping a financial statement user in assessing the entity's performance in the period. As a result, IAS 1 (2007) permitted entities to present income and expenses in the current period on either:
- (a) **One financial performance statement** – similar to Option 1, a private sector entity would present all income and expense items on a single statement, comprised of two sections: the first section presents income and expense items in profit or loss, and the second section presents items outside of profit or loss; or
 - (b) **Two financial performance statements** – similar to Option 2, a private sector entity would present two separate statements: one statement presents income and expense items in profit or loss, and the subsequent statement presents items outside of profit or loss.

The IASB continues to permit entities to choose either presentation option in IFRS 18 *Presentation and Disclosure in Financial Statements*, which replaces IAS 1. The IASB preferred a single-statement approach (as it reports all income and expense items in a single location) but ultimately decided to permit a two-statement approach in response to constituent feedback. [Appendix 2](#) illustrates the two presentation approaches under IFRS.

21. Considering the potential Options and learnings from the private sector, staff note that:
- (a) Both Options 1 and 2 would increase visibility of this financial information, and thus improve the transparency and clarity of communications regarding a public sector entity's overall financial performance, changes in its net financial position, and achievement of its service delivery objectives, in comparison with current IPSAS 1. Option 3 would not achieve the same effect;
 - (b) The benefits from Options 1 and 2 are not universal for all public sector entities. Some public sector entities may better benefit from using Option 1, while others from Option 2, depending on specific entity and jurisdictional factors and the needs of their respective users; and
 - (c) Allowing public sector entities to choose between Option 1 and Option 2 would be consistent with the following two strategic decisions made by the IPSASB on this project:
 - (i) *Balance the need for structure and flexibility* – Permitting public sector entities to choose between Options 1 and 2 would provide flexibility to improve the understandability of financial information based on local jurisdictional considerations; and
 - (ii) *Align with IFRS 18, unless there is public sector rationale to deviate* – Options 1 and 2 are consistent with the presentation options in IFRS 18. Given that the recognition and measurement requirements for these revenue and expense items are consistent between IFRS and IPSAS, it would be sensible to also ensure the presentation of these items is also consistent. Thus, there does not appear to be a public sector reason to deviate from IFRS alignment.

Terminology Options

22. Terminology use continues to be an important consideration and decision for the IPSASB, to use terms in its IPSAS that succinctly capture specific concepts and would resonate with users in the public sector. Recent examples include “current operational value” in IPSAS 46, *Measurement* as a public sector specific current value measurement basis, and “compliance obligation” in IPSAS 47, *Revenue* to capture enforceable promises in a binding arrangement.
23. In the context of presentation guidance related to revenue and expense items recognized outside of surplus or deficit, the IPSASB should identify a general term that reflects the nature and substance of these items: those outside ordinary operations of the reporting entity in achieving its service delivery objectives, which are typically unrealized gains/losses and typically out of the entity’s control. These revenue and expense items are a component of changes to the entity’s overall financial position.
24. *Pairing with Location Considerations*: Identifying and using an appropriate and understandable term in presentation guidance to describe revenue and expense items recognized outside of surplus or deficit:
 - (a) Will help entities better understand presentation requirements and communicate the nature and substance of these items, thereby improving overall transparency of this financial information; and
 - (b) When paired with the location consideration, will help users of public sector financial statements obtain a more comprehensive understanding of these changes to an entity’s financial position and achievement of its service delivery objectives.
25. *Learnings from the Private Sector*: The IASB uses the term “Other Comprehensive Income” (OCI) to describe income and expense items recognized outside of profit or loss in a financial performance statement, to provide a more comprehensive and transparent view of an entity’s financial performance in comparison to its historical approach of recognizing directly through equity. As noted in paragraph 9, the list of income and expense items recognized outside of profit or loss in IFRS 18 is consistent with the list of revenue and expense items recognized outside of surplus or deficit in IPSAS 1. During its research, staff also noted that:
 - (a) Some private sector constituents have highlighted that the term “OCI” is confusing (shared previously in [March 2024 Agenda Item 12.2.6](#)); and
 - (b) While IFRS 18 uses the term “OCI”, the IASB encourages entities to use another term or label so long as it faithfully represents the characteristics of the item (IFRS 18 paragraph 11).
26. Considering the above analysis and learnings from the private sector, staff note that:
 - (a) In previous projects where the IPSASB aligned with IFRS, members of the Consultative Advisory Group (CAG) advised the IPSASB to use consistent terminology between IFRS and IPSAS if it has a consistent meaning. This would infer that, since “OCI” comprises the same income and expenses outside of profit or loss in the private sector as those outside of surplus or deficit in the public sector, then the IPSASB should also use the term “OCI”;
 - (b) However, participants of the March 2024 breakout session have already noted issues with using the term “OCI” in the public sector because this term, particularly the word “income”, may

miscommunicate the nature and substance of these revenue and expense items. For example, users in parliamentary and budgetary positions may misconstrue these as available resources;

- (c) There may not be a “perfect” term to use in the IPSASB’s presentation guidance to describe revenue and expense items recognized outside of surplus or deficit. However, similar to the IASB, the terminology the IPSASB selects is used for standard-setting purposes to help describe and present requirements for these items in its Standard; and
- (d) Regardless of the terminology selected, the IPSASB can provide additional guidance in its Standard to clarify the purpose and intention behind the term used, and similar to IFRS, allow entities to use another term or label in its financial statements that better resonates with its users, so long as it faithfully represents the characteristics of the item.

Note for Breakout Participants

27. Breakout participants are asked to consider the above analysis and determine how the IPSASB should set presentation requirements, to enhance transparency and communication of this information for users of financial statements:

- (a) *Location to present this financial information in an effective, accessible, and understandable manner:* Should the IPSASB require entities to present revenue and expense items recognized outside of surplus or deficit using Option 1, Option 2, Option 3, or offer a choice?

And / Or

- (b) *Terminology to use to best communicate the nature and substance of this financial information:* What terminology should the IPSASB use in its guidance to describe revenue and expense items recognized outside of surplus or deficit?

Appendix 1 – Presentation of Revenues and Expenses in IPSAS

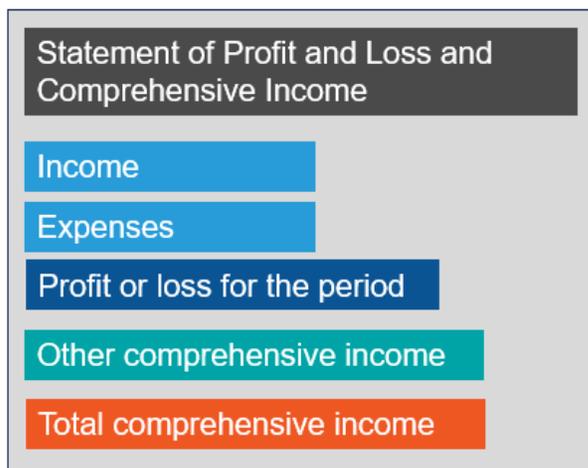
IPSAS requires entities to recognize and present certain revenue and expense items in surplus or deficit on the Statement of Financial Performance, or other revenue and expense items outside of surplus or deficit directly in net assets/equity on the Statement of Changes in Net Assets/Equity. IPSAS 1 defines “net assets/equity”, which includes a list of components. The specific requirements are presented in individual IPSAS. The IPSASB has not explicitly developed a basis for the allocation. The following table provides examples:

Statement of Financial Performance	Statement of Changes in Net Assets/Equity
<ul style="list-style-type: none"> • Revenue and expenses from general operating-related transactions to achieve its service delivery objectives, including the gain or loss from the derecognition of assets or settlement of liabilities • Revenue and expenses from investing-related transactions to support the execution of its service delivery objectives (see impairment below) • Revenue and expenses from financing-related transactions to support the execution of its service delivery objectives (e.g., interest income and interest expense) • Impairment of assets, including write-down of inventories or biological assets, and downward revaluation of assets held for sale or discontinued operations • Revaluation of certain financial instruments measured at fair value through surplus or deficit 	<ul style="list-style-type: none"> • Changes from unrealized revaluations of certain non-current assets (property, plant, and equipment or intangible assets) • Remeasurements of defined benefit liabilities • Foreign exchange translation adjustments • Unrealized gains or losses from the revaluation of certain financial instruments measured at fair value through net asset/equity, including: <ul style="list-style-type: none"> ○ Investments in equity instruments designated at fair value through net asset/equity ○ Financial assets measured at fair value through net asset/equity ○ Certain hedging instruments and other financial instruments in a hedging relationship • For certain financial liabilities designated as at fair value through surplus or deficit, the amount of the unrealized change in fair value that is attributable to changes in the liability’s credit risk

Appendix 2 – Illustration of IFRS 18 Presentation Options

The following graphic illustrates the two presentation approaches under IFRS 18. See additional illustrative examples in Appendix A of [March 2024 Agenda Item 12.2.6](#).

Single statement



Two statements

