

Meeting: International Public Sector Accounting Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 13–16, 2023

Agenda Item 13

For:

Approval

Discussion

Information

PRESENTATION OF FINANCIAL STATEMENTS

Project summary	The objective of this project is to enhance how information is communicated in the financial statements.	
Project staff lead	<ul style="list-style-type: none"> • João Fonseca, Principal • Christoph Braxton, Principal 	
Task Force members	<ul style="list-style-type: none"> • Ian Carruthers, IPSASB Chair (Task Force Chair) • [TBD] 	
Meeting objectives	Topic	Agenda Item
Project management	Project Roadmap	13.1.1
	Instructions up to Previous Meeting	13.1.2
	Decisions up to Previous Meeting	13.1.3
Decisions required at this meeting	Project Brief: Objective	13.2.1
	Project Brief: Scope and Final Output	13.2.2
	Project Brief: Key Issues and Consultation Paper Stage	13.2.3

**PRESENTATION OF FINANCIAL STATEMENTS:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
December 2022	1. Presentation of Financial Statements - Background to the Project 2. Financial Statement Presentation Options
June 2023	1. Project Brief: Objective 2. Project Brief: Scope and Final Output 3. Project Brief: Key Issues and Consultation Paper Stage
September 2023	4. Approve Project Brief

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
December 2022	<ol style="list-style-type: none">1. Update the analysis and scenarios proposed to reflect discussions held in the December 2022 meeting; and2. Make A Guide to Data Storytelling in the Public Sector available for IPSASB consideration at the next IPSASB discussion.	<ol style="list-style-type: none">1. [draft] Project Brief reflects the discussions at the December 2022 (see Agenda Item 13.2.1).2. Publication available through hyperlink.

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
December 2022	No decisions taken	

Project Brief: Objective

Question

1. Does the IPSASB agree with the staff's recommendation on project objective?

Recommendation

2. Staff recommends the IPSASB to adopt the following project objective in the project brief: *"Enhance how information is communicated in the financial statements."*

Background

3. At the December 2022 meeting, the IPSASB discussed for the first time some issues and options as part of the initial research and scoping for the Presentation of Financial Statements project.
4. This agenda includes a proposal for the project objective to be included in the Project Brief, *Presentation of Financial Statements* based on the IPSASB's discussion at the December 2022 meeting and staff's research during Q2 2023.

Analysis

5. Financial statements are an essential part of financial reporting as they provide very useful information to its users. In this context, communication of financial information in the financial statements has a paramount importance to achieve the objectives of public sector financial reporting of accountability and decision-making and meet the ever-evolving users' needs.
6. IPSAS 1, *Presentation of Financial Statements* was issued in May 2000 and revised in December 2006. IPSAS 1 is drawn primarily from International Accounting Standard (IAS) 1 (Revised 2003), *Presentation of Financial Statements* issued by the International Accounting Standards Board (IASB).
7. Since the issuance of IPSAS 1 (Revised 2006), there have been significant developments in how global standard setters think about how financial information is in both public and private sectors, which the Standard has not been updated to reflect:
 - (a) **IPSASB Conceptual Framework**—the IPSASB has not reviewed IPSAS 1, *Presentation of Financial Statements* since the issuance of the Conceptual Framework in 2014;
 - (b) **IFRS Alignment**—IPSAS 1 has not been updated for many amendments that the IASB made to IAS 1, *Presentation of Financial Statements* since 2007;
 - (c) **GFS Alignment**—In 2014, the International Monetary Fund issued the Government Finance Statistics Manual 2014 (GFSM 2014) with an enhanced analytical framework to support fiscal analysis, including four financial statements, that was not considered in IPSAS 1; and
 - (d) **Users' needs**—The project responds to demands from IPSASB stakeholders to add this project to the work program to enhance the information communicated in the financial statements.
8. Many of the changes made, or proposed, by other global standard setters are built upon foundations that are similar to IPSAS 1. With the evolution in how financial information is presented, the IPSASB can build upon the information public sector financial statements provide by making this information more decision useful and more easily accessible. The IPSASB should take this opportunity to

enhance its existing guidance to provide financial statements' users with financial information that is better communicated.

9. Therefore, staff recommends that the following objective for this project:

“Enhance how information is communicated in the financial statements.”

Decision Required

10. Does the IPSASB agree with the staff's [recommendation](#)?

Project Brief: Scope and Final Output

Question

1. Does the IPSASB agree with the staff's recommendations on the project scope and final output?

Recommendation

2. Staff recommends the IPSASB scope the project as follows:
 - (a) Scope in financial statements covered by IPSAS 1, *Presentation of Financial Statements*;
 - (b) Exclude:
 - (i) The presentation of information that enhances, complements, and supplements financial statements;
 - (ii) IPSAS 2, *Cash Flow Statements*;
 - (iii) IPSAS 22, *Disclosure of Financial Information about the General Government Sector*;
 - (iv) IPSAS 24, *Presentation of Budget Information in Financial Statements*; and
 - (c) The final output be a new IPSAS on Presentation of Financial Statements to supersede IPSAS 1.

Background

3. At the December 2022 meeting, the IPSASB discussed for the first time some issues and options as part of initial research and scoping for the Presentation of Financial Statements project.
4. This agenda includes proposals on project scope and final output for the Project Brief, *Presentation of Financial Statements* based on the IPSASB's discussion at the December 2022 meeting and staff's research during Q2 2023.

Analysis

Scope in

5. Developing guidance on the presentation of financial statements is an ambitious project that will require significant IPSASB resources. It is therefore critical that the IPSASB scopes this project appropriately to be able to deliver in a timely manner.
6. Focusing this project on the scope of IPSAS 1 provides reasonable boundaries for the project. In response to the mid-period work program consultation, respondents agreed and supported the project to be limited to IPSAS 1.
7. Staff's recommendation of focusing on statements covered by IPSAS 1 means the following are in scope:
 - (a) Statement of Financial Position;
 - (b) Statement of Financial Performance;
 - (c) Statement of Changes in Net Assets/Equity; and
 - (d) Notes.

8. Focusing on the statements above should address stakeholder needs:
 - (a) As they form the complete set of financial statements for public sector financial reporting purposes in accordance with IPSAS 1; and
 - (b) Because of the linkages between all financial statements.

Scope out

IPSAS 2, Cash Flow Statements

9. IPSAS 2 was issued in May 2000 and is drawn primarily from IAS 7, *Statement of Cash Flow* issued by the IASB.
10. Since its issuance, IAS 7 has had changes as a result of consequential amendments from other IASB projects. However, some of these amendments have not been incorporated in IPSAS 2 because they were also related to consequential amendments that were not incorporated in IPSAS 1.
11. As a consequence, the presentation of the cash flow statements in IPSAS 2 are also no longer aligned with relevant requirements in IAS 7. However, the degree of necessary amendments to IPSAS 2 to make it fully aligned with IAS 7 is limited, and they are much less than the necessary amendments to IPSAS 1 to make it aligned with relevant IAS 1 requirements on a comparison basis.
12. While staff recommends IPSAS 2 be out of scope, consequential amendments may be made as necessary. The update of IPSAS 2 may be done through the consequential amendments of the new IPSAS on Presentation of Financial Statements to IPSAS 2.

Other IPSAS

13. Staff also recommends the IPSASB scoping out of this project:
 - (a) The presentation of information that enhances, complements, and supplements financial statements.
 - (b) IPSAS 22, *Disclosure of Financial Information about the General Government Sector*; and
 - (c) IPSAS 24, *Presentation of Budget Information in Financial Statements*.because these sets of guidance are not part of the core of public sector financial reporting as per the IPSASB's Conceptual Framework.
14. Staff notes that consequential amendments to IPSAS 22 and IPSAS 24 may be necessary to make it consistent with the new IPSAS on Presentation of Financial Statements.

Project Final Output

15. According to the IPSAS-IFRS Alignment Dashboard, IPSAS 1 is classified as public sector specific IPSAS with some IFRS-based guidance. This is due to the fact that IPSAS 1 has not been amended to introduce the changes that the IASB has made to IAS 1, *Presentation of Financial Statements* since 2007 (for example, other comprehensive income) that resulted in substantial number of paragraphs in:
 - (a) IPSAS 1 that no longer exist in IAS 1;
 - (b) IAS 1 that were not introduced in IPSAS 1; and
 - (c) IAS 1 that were merged, but were not merged in IPSAS 1.

16. Additionally, by considering the Conceptual Framework, alignment with GFS, and the user's needs in the public sector in the development of new requirements for presentation of financial statements, substantial changes on how financial information will be presented in the financial statements are likely.
17. IPSAS 1 is so far behind the changes in global thinking, amendments to IPSAS 1 will not suffice. IPSAS 1 will need to be superseded to appropriately reflect new thinking in the public sector.
18. Therefore, staff recommends the IPSASB that the project's final output to be a new IPSAS on Presentation of Financial Statements to supersede IPSAS 1. The future new IPSAS may make consequential amendments to other IPSAS.

Decision Required

19. Does the IPSASB agree with the staff's [recommendations](#)?

Project Brief: Key Issues and Consultation Paper Stage

Question

1. Does the IPSASB agree with the staff recommendations on keys issues and Consultation Paper (CP) stage to be included in the Project Brief, *Presentation of Financial Statements*?

Recommendation

2. Staff recommends the IPSASB to include in the Project Brief:
 - (a) The following keys issues:
 - (i) IPSASB Conceptual Framework;
 - (ii) Sectioned Statement of Financial Performance;
 - (iii) Other Comprehensive Income;
 - (iv) Government Finance Statistics Manual (GFSM) 2014; and
 - (b) A CP stage, with an illustrative ED, following a topic-based approach.

Background

3. At the December 2022 meeting, the IPSASB discussed for the first time some issues and options as part of initial research and scoping for the Presentation of Financial Statements project.
4. This agenda includes proposals for keys issues and project development to be included the Project Brief, *Presentation of Financial Statements* based on the IPSASB's discussions at the December meeting and staff's research during Q2 2023.

Analysis

Key Issues

5. During the research and scoping phase, staff have identified some key issues which they recommend the IPSASB to address in the Project Brief:
 - (a) **IPSASB Conceptual Framework**—The last revision of IPSAS 1 in 2006 predates the completion of the Conceptual Framework in 2014. This project offers the IPSASB the opportunity to consider the Conceptual Framework, including its recently updated chapters, in several topics of the CP (for example: users' needs of resource providers and service recipients, purpose of financial statements, definitions, residual and descriptions and guidance on service potential and economic benefits).
 - (b) **Sectioned Statement of Financial Performance**—In the IASB's most recent Exposure Draft (see [Exposure Draft ED/2019/7 General Presentation and Disclosures](#)), a proposal was put forward to introduce a sectioned Statement of Financial Performance¹ by categories of income

¹ The IASB is proposing to introduce three sections in the Statement of Profit or Loss, including a subtotal for each section: Operating, Integral associates and joint ventures, Investing, and Financing. According to the IASB's ED, "The Board developed its proposals for the categories in the statement of profit or loss without trying to align classifications across the primary financial statements. Consequently, income and expenses classified in the operating, investing and financing categories in the statement of profit or loss do not necessarily correspond with the cash flows from operating, investing and financing activities in the statement of cash flows." (page 8 of ED/2019/7 General Presentation and Disclosures).

and expenses. This is a new approach in the private sector that offers several benefits. The IPSASB can consider whether these benefits are also applicable in the public sector.

- (c) **Other Comprehensive Income**—A significant difference between the IPSASB and IASB reporting model is the reporting of other comprehensive income. The IASB introduced changes on reporting other comprehensive income to help distinguish the presentation of owner changes in equity from non-owner changes in equity. The IPSASB has the ability to consider whether this reason, or any other, is relevant in the public sector context.
- (d) **GFSM 2014**—There have been updates to GFSM with the issuance of the 2014 edition. Given the IPSASB's goal to align with GFS where applicable, the IPSASB should consider the applicability of the updates in IPSAS linked to consideration of Other Comprehensive Income.

CP Stage

- 6. At the December 2022 meeting, the IPSASB discussed three options on how this project may develop.
- 7. The options present a spectrum of users' needs for financial information in the financial statements. At one end of the spectrum is financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the reporting entity (Option: IFRS Alignment).
- 8. At the other end of the spectrum is financial information that is specifically designed to support fiscal analysis (Option: GFS Alignment).
- 9. Between the two ends of the spectrum is financial information that is specifically designed for the public sector taking into consideration the users' needs of service recipients and resource providers as per the IPSASB's Conceptual Framework, which may include financial information of IFRS Alignment Option and GFS Alignment Option (Option: Public Sector-Specific).
- 10. During the research and scoping phase of the project, staff identified flaws of developing:
 - (a) A Consultation Paper based on options of financial statements—it views each option as silos or mutually exclusive where it is possible from a conceptual and practical perspectives that the best solution may be a hybrid option of the proposals to be determined after public consultation.
 - (b) A solo Exposure Draft—it does not permit the IPSASB to mature its thinking and views on how the presentation of financial statements should be before committing to a formal Exposure Draft.
- 11. Staff did further analysis of the above three options during Q2 2023. [Appendix A](#) shows that the three options have a common denominator: they present financial information for presentation of their financial statements by topic according to their own principles. Staff notes that some of these topics are part of the key issues identified in the above paragraph 5.
- 12. Therefore, rather than evaluate three distinct options, staff recommends the IPSASB to develop a CP with an illustrative Exposure Draft (ED) following a topic-based approach. A topic-based approach would allow the IPSASB to analyze and discuss each topic and develop several preliminary views as the first stage of this project. This method would enable the IPSASB to:
 - (a) Address every topic in a holistic manner—for each topic it would be given full consideration of all perspectives given their complexity; and

- (b) Mature its thinking and views on how the presentation of financial statements should be, given the most recent developments in both public and private sectors and the recently updated Conceptual Framework.
13. The CP would follow a topic-based approach following the table of contents of IPSAS 1 and any additional topics that will be included in the future Final Pronouncement. [Appendix A](#) provides a draft guide on the topics that will be addressed in the CP.
 14. The CP would provide IPSASB's Preliminary Views on the main topics of the illustrative ED. The idea is to provide constituents with a clearer view of the IPSASB's direction of travel, by reflecting the ideas in the CP as an illustrative ED. By being more transparent about where the IPSASB's discussions, and the ideas in the CP, are leading, the staff hopes that the IPSASB gets better feedback on those ideas.
 15. The CP with an illustrative ED is also an effective way to develop the different stages of the project. The Measurement project showed that the potentially longer time spent in developing the CP with the illustrative ED, it is expected that it will be more than compensated by the faster time in developing the ED in the second stage.
 16. As with the Measurement project, it is proposed that the illustrative ED would be published as an addendum to the CP, and would include the core text, application guidance, basis for conclusions, and illustrative examples of financial statements.
 17. The topic-based approach to CP development would also give time for the IASB to complete its project on [Primary Financial Statements](#) during the development of the CP (see paragraph 5(b) above).

Decision Required

18. Does the IPSASB agree with the staff's [recommendations](#)?

Appendix A: Illustrative List of Topics Based on IPSASB’s literature, IAS 1, and GFSM 2014

Current IPSAS (IPSAS 1)	IFRS Alignment (IAS 1)	GFS Alignment (GFSM 2014)	Public-Sector Specific (Most Relevant Chapters of the Conceptual Framework)
Objective	Objective	Introduction	Chapter 2: Objectives and Users of General Purpose Financial Reporting
Scope	Scope	Analytic Objectives	Chapter 3: Qualitative Characteristics
Definitions	Definitions	Components and Concepts of the Analytic Framework	Chapter 5: Elements in Financial Statements
Purpose of Financial Statements	Financial Statements	The Statement of Operations	Chapter 8: Presentation in General Purpose Financial Reports
Responsibility of Financial Statements	Purpose of financial statements	Revenue and Expense	
Components of Financial Statements	Complete set of financial statements	Transactions in Nonfinancial Assets	
Overall Considerations	General features	Transactions in Financial Assets and Liabilities	
Fair Presentation and Compliance with IPSAS	Fair presentation and compliance with IFRSs	The Statement of Sources and Uses of Cash	
Going Concern	Going concern	The Statement of Other Economic Flows	
Materiality and Aggregation	Accrual basis of accounting	The Balance Sheet	
Offsetting	Materiality and aggregation	Assets	
Comparative Information	Offsetting	Liabilities	
Structure and Content	Frequency of reporting	The Statement of Total Changes in Net Worth	
Introduction	Comparative information	The Summary Statement of Explicit Contingent Liabilities and Net Implicit Obligations for Future Social Security Benefits	

Current IPSAS (IPSAS 1)	IFRS Alignment (IAS 1)	GFS Alignment (GFSM 2014)	Public-Sector Specific (Most Relevant Chapters of the Conceptual Framework)
Identification of Financial Statements	Consistency of presentation	Annex: Using GFS for Fiscal Analysis	
Reporting Period	Structure And Content	Introduction	
Timeliness	Introduction	Fiscal Indicators Available from the GFS Framework	
Statement of Financial Position	Identification of the financial statements	Fiscal Indicators Requiring Additional Data	
Current/Non-current Distinction	Statement of financial position		
Current Assets	Information to be presented in the statement of financial position		
Current Liabilities	Current/non-current distinction		
Information to be Presented on the Face of the Statement of Financial Position	Current assets		
Information to be Presented either on the Face of the Statement of Financial Position or in the Notes	Current liabilities		
Statement of Financial Performance	Information to be presented either in the statement of financial position or in the notes		
Surplus or Deficit for the Period	Statement of profit or loss and other comprehensive income		
Information to be Presented on the Face of the Statement of Financial Performance	Information to be presented in the profit or loss section or the statement of profit or loss		
Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes	Information to be presented in the other comprehensive income section		
Statement of Changes in Net Assets/Equity	Profit or loss for the period		

Current IPSAS (IPSAS 1)	IFRS Alignment (IAS 1)	GFS Alignment (GFSM 2014)	Public-Sector Specific (Most Relevant Chapters of the Conceptual Framework)
Cash Flow Statement	Other comprehensive income for the period		
Notes	Information to be presented in the statement(s) of profit or loss and other comprehensive income or in the notes		
Structure	Statement of changes in equity		
Disclosure of Accounting Policies	Information to be presented in the statement of changes in equity		
Key Sources of Estimation Uncertainty	Information to be presented in the statement of changes in equity or in the notes		
Capital	Statement of cash flows		
Puttable Instruments Classified as Net Assets/Equity	Notes		
Other Disclosures	Structure		
	Disclosure of accounting policy information		
	Sources of estimation uncertainty		
	Capital		
	Puttable financial instruments classified as equity		
	Other disclosures		