## PRESENTATION OF FINANCIAL STATEMENTS

<table>
<thead>
<tr>
<th>Project summary</th>
<th>The objective of this project is to enhance the presentation of financial statements that would help all public sector entities communicate their financial information better for accountability purposes and to the decision-makers that evaluate this information.</th>
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<tbody>
<tr>
<td>Task Force members</td>
<td>To be determined</td>
</tr>
<tr>
<td><strong>Meeting objectives</strong></td>
<td><strong>Topic</strong></td>
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<tr>
<td>Project management</td>
<td>Project Roadmap</td>
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<td>Instructions up to Previous Meeting</td>
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<td>Decisions up to Previous Meeting</td>
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<tr>
<td>Decisions required at this meeting</td>
<td>Presentation of Financial Statements - Background to the Project</td>
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<td>Financial Statement Presentation Options</td>
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<td>Other supporting items</td>
<td>Appendix A: Proposed Summary of a Statement of Profit or Loss</td>
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<td>Appendix B: Summary of a Statement of Operations</td>
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<td>Appendix C: Statement of Operations</td>
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<td>Appendix D: Overview of Jurisdictional Responses to the IASB’s Proposals</td>
</tr>
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*Prepared by: Tashriq Allie (November 2022)*
### PRESENTATION OF FINANCIAL STATEMENTS: PROJECT ROADMAP

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Completed Actions or Discussions / Planned Actions or Discussions:</th>
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Presentation of Financial Statements
IPSASB Meeting (December 2022)
### INSTRUCTIONS UP TO PREVIOUS MEETING

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Instruction</th>
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# DECISIONS UP TO PREVIOUS MEETING

<table>
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<th>Meeting</th>
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<tbody>
<tr>
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Presentation of Financial Statements
IPSASB Meeting (December 2022)
Presentation of Financial Statements - Background to the Project

Purpose

1. To provide a summary of the issues identified as part of the initial research for the Presentation of Financial Statements project.

Background

2. In July 2021, the IPSASB sought stakeholder input to determine which potential projects would be most important to its constituents in delivering the Strategy and Work Plan 2019-2023 and as a result, should be added to the work program.

3. In seeking stakeholder input, the IPSASB identified projects by applying the project prioritization criteria in the Strategy, and drawing on stakeholder feedback obtained during its development. The IPSASB prioritized six projects for consideration by stakeholders, including two major projects:
   (a) Presentation of Financial Statements; and
   (b) Differential Reporting.

4. Based on the strong support received from respondents, in March 2022, the IPSASB added both major projects to the work program, and for work on them to commence when resources become available.

5. The Presentation of Financial Statements project will consider the overall requirements for the presentation of financial statements, guidelines for their structure, and minimum requirements for their content (including disclosure). A project that enhances presentation would help all public sector entities communicate their financial information better for accountability purposes and to the decision-makers that evaluate this information.

6. As momentum builds across jurisdictions to implement IPSAS, its relevance and usefulness would become even more crucial to delivering the full benefits from the investment required to implement accrual-based reporting. This project also provides an opportunity to introduce, at the standards level, the revised Conceptual Framework definitions, and for the IPSASB to align the IPSAS reporting model more closely with:
   (a) International Statistical Standards, which can be a significant driver in accrual basis accounting adoption; and
   (b) Budgetary control and reporting frameworks.

Issues

7. On 19-20 September 2022, the IPSASB hosted standard-setters from around the world at its 4th International Public Sector Standards Setters Forum. Amongst other topics, attendees collaborated to scope the IPSASB's new guidance projects. During the group discussions held with attendees about the project on the Presentation of Financial Statements, staff identified the following themes:
8. Staff has further analyzed the issues underpinning these themes in the following table:

<table>
<thead>
<tr>
<th>Theme: Focus on users’ needs</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue</td>
<td>Explanation</td>
</tr>
<tr>
<td>a) The presentation and disclosure requirements should be driven by ‘what is important to users’.</td>
<td>Many users are not experts in financial reporting. Therefore, the presentation and disclosure requirements should not introduce unnecessary complexities and should be straightforward enough for an ordinary citizen to understand. This may be accomplished by allowing entities flexibility when applying a presentation of financial statement standard, such that the entity’s presentation and disclosure might be different from that which is envisaged by the standard, but the nature of the financial reporting is the same. Some noted the same level of detail as IFRS, which is what IPSAS 1 is prescribing, is not necessary in the public sector. The entity should therefore be allowed the room to apply its judgment to determine what information is important to users, and to present the financial statements accordingly.</td>
</tr>
</tbody>
</table>
### Theme: Disclose incomes/expenses not disclosed in the statement of surplus/deficit

<table>
<thead>
<tr>
<th>Issue</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>b) The presentation and disclosure requirements, in respect of those items of income and expenses that are recognized directly in net assets/equity, and not recognized in surplus or deficit, should be considered in IPSAS 1.</td>
<td>Some items of income and expenses are not recognized in surplus or deficit, but are accounted for directly in net assets/equity, according to the relevant IPSAS. Consequently, the statement of surplus/deficit does not provide a complete overview of the changes in the net worth of the entity during the period. As such, users of the statement of surplus/deficit do not have sight of the quantitative and qualitative detail of the transactions accounted for directly in net assets/equity.</td>
</tr>
</tbody>
</table>

### Theme: Focus on accountability to stakeholders

<table>
<thead>
<tr>
<th>Issue</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>c) An ordinary citizen should be able to determine how the entity allocated its resources to activities and programs which are core to the entity’s service delivery objective, from the statement of surplus/deficit.</td>
<td>To be useful to ordinary citizens, the statement of surplus/deficit should focus on how the entity used its net assets to fund the activities and programs of the entity. This may be accomplished by encouraging entities to disclose expenses by function on the statement of surplus/deficit, with sufficient detail to highlight the programs and activities of the entity, on which resources were allocated during the year.</td>
</tr>
<tr>
<td>d) Provide presentation and disclosure guidance that allows the entity to disclose performance measures alternative to surplus/deficit.</td>
<td>Public sector entities provide performance measures to their constituents which are derived from the statement of surplus/deficit, however, not disclosed in a transparent and disciplined manner therein. Entities should be encouraged to provide a reconciliation between the alternative performance measure and the most directly comparable subtotal or total specified by the relevant IPSAS.</td>
</tr>
</tbody>
</table>

### Theme: Facilitate reconciliation with budgets

<table>
<thead>
<tr>
<th>Issue</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>e) Provide presentation and disclosure requirements that facilitate the reconciliation of budgets to financial performance.</td>
<td>A user of the statement of surplus/deficit should be able to reconcile the figures presented with the entity’s cash flow/budget, or the statement of operations prepared in accordance with the International Monetary Fund’s (IMF) Government Finance Statistics (GFS) Reporting. The presentation and disclosure requirements should provide entities with guidance to facilitate the reconciliation of budgets to financial performance.</td>
</tr>
</tbody>
</table>
9. There was a broad range of issues raised by stakeholders. Staff performed an analysis of these issues and the associated themes, in order for the IPSASB to begin to discuss the scope of this project.

**Decision Required**

10. For information purposes only. No decision is required.
Financial Statement Presentation Options

Purpose

1. The purpose of this paper is to provide the IPSASB with an overview of broad scoping options identified based on staff's initial research for the Presentation of Financial Statements project.

Background

2. In developing accounting standards and guidance for use by public sector entities, the IPSASB considers the views of those interested in public sector financial reporting, including those directly affected by the Standards, as well as accounting standard-setting bodies around the world. This ensures that all views are considered in the standard-setting development process, and the developed standards are underpinned by cross-border comparability and understandability.

Analysis

3. To promote discussion on this issue, staff reviewed existing and developing approaches to improve the communication of information in financial statements with a focus on performance in the statement of surplus or deficit. In addition, staff considered the responses to the IPSASB’s Mid-Period Work Program Consultation, along with the views of standard-setters from around the world at its 4th International Public Sector Standards Setters Forum. Staff has identified some broad options for the Board to discuss to help share the project brief. These options are not mutually exclusive. A combined solution may exist to address the issues raised in Agenda Item 11.2.1.

International Accounting Standards Board’s (IASB) IAS 1 Proposals

4. The IPSASB policy is to converge the accrual basis IPSASs with IFRSs issued by the IASB where appropriate for public sector entities. Accrual basis IPSASs that are converged with IFRSs maintain the requirements, structure, and text of the IFRSs, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context.

5. The IASB sets international accounting standards for use by private sector entities. In December 2019, the IASB issued Exposure Draft ED/2019/7 General Presentation and Disclosures. The
Exposure Draft includes the proposals of the IASB to improve how information is communicated in the financial statements, with a focus on information about performance in the statement of profit or loss. The IASB is proposing limited changes to the statement of cash flows and the statement of financial position.

6. The proposals in the Exposure Draft were developed by the IASB as part of its Primary Financial Statements project, which is part of the IASB’s work on Better Communication in Financial Reporting. It responds to the strong demand from stakeholders, and in particular users of financial statements, to undertake a project on performance reporting.

7. The Exposure Draft includes:

(a) A proposal to replace IAS 1, *Presentation of Financial Statements* with a new Standard that would comprise:

   (i) New requirements on presentation and disclosures in the financial statements.

   (ii) Requirements brought forward from IAS 1 with only limited changes to the wording. (These changes are not intended to modify any requirements.)

8. The main proposals underpinning the new requirements in presentation and disclosures in the financial statements are to:

(a) Require additional defined subtotals in the statement of profit or loss (refer to Appendix A for the new proposed format of the statement of profit or loss):

   (i) Currently no subtotals are defined by IFRS accounting standards between ‘revenue’ and ‘profit or loss’.

   (ii) Companies calculate subtotals in different ways. In a sample of 100 companies, the IASB found that 63 companies reported operating profit in the financial statements, using at least nine different definitions.

   (iii) The Exposure Draft proposes that an entity present new subtotals in the statement of profit or loss, such that the income and expenses are classified into the following categories:

       a. Operating;

       b. Investing; and

       c. Financing.

(b) Require disclosures about management performance measures:

   (i) The Board proposes to introduce a definition of ‘management performance measures’ and require an entity to disclose them in a single note. Management performance measures are subtotals of income and expenses that:

       a. Are used in public communications outside financial statements;

       b. Complement totals or subtotals specified by IFRS Standards; and

       c. Communicate to users of financial statements management’s view of an aspect of an entity’s financial performance.
(c) Strengthen requirements for disaggregating information:

(i) The IASB proposes to describe the roles of the primary financial statements and the notes. The IASB also proposes principles and general requirements on the aggregation and disaggregation of information; the principles would be applicable both to presentation in the primary financial statements and disclosures in the notes.

(ii) The IASB proposes to continue to require entities to present in the statement of profit or loss an analysis of operating expenses using either the nature of expense method or the function of expense method. The IASB proposes the method presented should be the one that provides the most useful information to users of financial statements. In addition, the IASB proposes to describe the factors to consider when deciding which method of operating expense analysis should be used.

**International Monetary Fund’s GFS Reporting**

9. As a number of governments have to report under GFS, significant benefits can be gained from using a single integrated financial information system to generate both IPSAS financial statements and GFS reports. IPSASs and GFS reporting guidelines have some important differences, as a result of their different objectives and separate development. However, IPSAS financial statements and GFS reports have much in common. Both show financial, accrual-based information; a government’s assets, liabilities, revenue, and expenses; and comprehensive information on cash flows. There is also considerable overlap between the two reporting frameworks that underpin this information. A continuing emphasis on harmonization with statistical accounting is therefore a key component of the IPSASBs theme of public sector critical projects.

10. The Government Finance Statistics Manual 2014 (GFSM 2014) is part of a series of international guidelines on statistical methodologies that have been issued by the International Monetary Fund. The Manual is designed for use by compilers of GFS, fiscal analysts, and other users of fiscal data. The Manual is focused on conceptual descriptions of definitions, classifications, and conceptual guidelines for compiling and disseminating GFS. The GFS analytic framework is a quantitative tool that supports fiscal analysis. To permit effective analysis of fiscal policy, the GFS framework facilitates the identification, measurement, monitoring, and assessment of the impact of a government’s economic policies and other activities on the economy.

11. The core of the analytic framework is a set of four financial statements. These are the:

(a) Statement of Operations,

(b) Statement of Other Economic Flows,

(c) Balance Sheet,

(d) Statement of Sources and Uses of Cash.

12. The Statement of Operations (refer to Appendix B for an illustrative format) is divided into three sections that present: revenue and expense transactions; transactions in non-financial assets; and transactions in financial assets and liabilities.

13. Two important analytic balances are derived in the Statement of Operations. Revenue minus expense equals the net operating balance, reflecting the total change in net worth due to transactions. The
subsequent deduction of the net investment in non-financial assets results in net lending (+) / net borrowing (−), which is also equal to the net result of transactions in financial assets and liabilities.

14. The net operating balance is a summary measure of the sustainability of the reporting sector or subsector’s operations. It is comparable to the national accounts concept of saving plus net capital transfers receivable. The net operating balance as defined here excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. The component of the change in net worth that is due to transactions can largely be attributed directly to government policies since governments have direct control over the decisions that lead to the interaction with other units by mutual agreement.

15. Net lending (+) / net borrowing (−) is a summary measure indicating the extent to which the government is either putting financial resources at the disposal of other sectors in the economy or abroad, or utilizing the financial resources generated by other sectors in the economy or from abroad. It may therefore be viewed as an indicator of the financial impact of government activity on the rest of the economy and the rest of the world.

Public Sector-Specific Approach

16. An alternative approach to aligning with the IASB’s proposals or GFS reporting requirements would be to develop a public sector-specific approach. The development of a public sector-specific approach will be a resource-intensive exercise for the IPSASB. In 2021, the Canadian Public Sector Accounting Board (PSAB) undertook to develop a public sector-specific approach to the presentation of financial statements which improves the understandability of financial statement users and provides them with better information for accountability purposes.

17. In particular, the proposals in the Board’s Exposure Draft – Financial Statement Presentation, aim to improve how information is presented in financial statements and thus improve the quality of financial reporting by:

(a) Providing understandable information about the financial position and the net financial assets or net financial liabilities indicator; and

(b) Improving the transparency about those revenues and expenses that would be reflected in and outside of a period’s surplus or deficit.

18. The Board is proposing a revised financial statement presentation standard that builds on the existing one. After considering the relative merits of many reporting models and the extensive input received from stakeholders, the Board believes that the proposed reporting model meets user needs and is both pragmatic and strategic. The Board concluded that:

(a) The proposed reporting model responds to the need for understandable financial statements for the public and its elected and appointed representatives. The model would report only elements that the public recognizes from its own finances: assets, liabilities, revenues, and expenses.

(b) The model is aspirational in that it provides the Board the ability to deal with: current issues, such as remeasurements and performance obligations; and future issues, such as heritage resources, natural capital, and endowments while ensuring that the economic substance of items, transactions, and other events is reflected for improved accountability information.

19. The main features of the Exposure Draft relate to the financial statement package, which includes:
(a) A statement of financial position:
   (i) The statement of financial position is restructured to present total assets followed by total liabilities to arrive at the net assets or net liabilities indicator of financial position to make the statement more understandable to users.
   (ii) The net debt indicator, a key Canadian indicator, is relocated to its own statement, the statement of net financial assets or net financial liabilities because, among other things:
      a. It allows the indicator to be prominently displayed in a statement, given its importance, rather than being presented as a subtotal in the statement of financial position; and
      b. It gives PSAB the ability to refine the calculation of the indicator to ensure its original meaning is retained.

(b) A statement of net financial assets or net financial liabilities:
   (i) The statement of net financial assets or net financial liabilities is a new statement. It presents more prominently the net financial assets or net financial liabilities indicator.
   (ii) The calculation of the indicator is proposed to be financial assets minus financial liabilities. This allows the indicator to measure what it was meant to measure.
      a. A net financial assets position means there are financial assets available to provide services in the future and settle future financial liabilities.
      b. A net financial liabilities position means there is a need for future financial assets to settle past financial liabilities. It represents a lien on future financial assets and affects an entity’s ability to finance its activities, provide services and settle its financial liabilities in the future.
   (iii) Presenting all the information on the indicator in one statement, the statement of net financial assets or net financial liabilities, may lead to it being better understood and allows for a more comprehensive narrative about the indicator.

(c) A statement of operations (refer to Appendix C for an illustrative format):
   (i) The statement of operations is substantially unchanged. The presentation of revenues by major type is retained as this provides useful accountability information for understanding and assessing:
      a. The impact of revenue raising on the economy;
      b. The relative contributions of revenue sources; and
      c. The revenue-producing capacity of investments.
   (ii) The presentation of expenses by function (i.e., major program) is retained as this provides useful accountability information on the cost of the entity’s economic resources consumed in carrying out its objectives (i.e., major programs).
   (iii) The presentation of the actual-to-budget comparison remains as this comparison is a crucial aspect of the accountability cycle.

(d) A statement of changes in net assets or net liabilities:
(i) The statement of changes in net assets or net liabilities is a new statement. It shows the reconciliation between the opening and closing balances of each component of net assets or net liabilities. The purpose of the statement is to be transparent with respect to those revenues and expenses recognized in surplus or deficit and those recognized directly in a component of net assets or net liabilities (i.e., accumulated remeasurement gains and losses or accumulated other).

(ii) This new statement does not preclude an entity from also providing a detailed statement or schedule to support summary information in any particular component if the details of changes in that component in the period would be too complex for the new statement. For example, an entity may wish, for accountability purposes, to provide a statement of remeasurement gains and losses (or a schedule with the same detail), and just include summary information for this component on the statement of changes in net assets or net liabilities.

(e) A statement of cash flow:

(i) In the statement of cash flow, the financing activities are proposed to be isolated. This presentation would show whether all of an entity’s other activities combined resulted in the need for cash to be raised through financing activities. This is an aspect of an entity’s sustainability, and reporting on sustainability is an important dimension of accountability reporting.

(f) New budget requirements:

(i) The budget amounts on the financial statements should be presented using the same basis of accounting, following the same accounting principles, for the same scope of activities, and using the same classifications as the actual amounts. This allows for an understandable actual-to-budget comparison.

(ii) When budget information is not prepared or approved, an acknowledgment stating this fact should be presented. The budget is a key aspect of the accountability cycle. As a result, it is important to indicate when the budget is not prepared or approved.

**Simplified Financial Statements**

20. Based on the analysis of responses to the IPSASB’s Mid-Period Work Program Consultation, some constituents, in favor of adding the Presentation of Financial Statements project to the Work Program, noted the following:

(a) As many users of the financial statements in the public sector are government officials or citizens and are not experts in financial reporting, which differs from the private sector, there is a potential need and/or motivation for the presentation of financial statements of public sector entities to be different. A key consideration of this project should be to identify the information needs of public sector users when they review the primary financial statements. The presentation of information in the financial statements requires improvement – both from the standards-level requirements, but also in how these requirements are applied by preparers in practice. The project should aim to address both components.

(b) It is important that IPSAS 1 be updated to reflect all the changes arising from the Conceptual Framework and to consider the public sector impact of changes to IAS 1. This project provides
the IPSASB with a good opportunity to obtain feedback from stakeholders as to their informational needs, and how communication through the financial statements can be improved for all public sector stakeholders.

21. Based on constituents’ responses, an alternative approach the Board may consider is to develop the overall requirements for the presentation of financial statements, guidelines for their structure, and minimum requirements for their content (including disclosure) which results in a simplified set of financial statements that:

(a) Focuses on the core needs of users of the public sector entity’s financial statements,

(b) Is free from the complexities of the current presentation and disclosure requirements,

(c) Focuses on how the entity used its net assets to fund the activities and programs driving its service delivery objectives,

(d) Provides the public sector entity with the flexibility to communicate their financial narrative better for accountability purposes and to the decision-makers that evaluate this information,

(e) Aligns with International Statistical Standards, which can be a significant driver in accrual basis accounting adoption; and

(f) Facilitates the reconciliation with budgetary control and reporting frameworks.

**Decision Required**

22. For information purposes only. No decision is required.
## Appendix A: Proposed Summary of a Statement of Profit or Loss

The table below is a summary of an illustrative statement of profit or loss prepared by an entity applying the IASB’s project proposals.

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td></td>
</tr>
<tr>
<td>Changes in inventories of finished goods and work in progress</td>
<td></td>
</tr>
<tr>
<td>Raw materials used</td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
</tr>
<tr>
<td>Amortization</td>
<td></td>
</tr>
<tr>
<td>Professional fees and other expenses</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
</tr>
<tr>
<td>Income and expenses from associates and joint ventures</td>
<td></td>
</tr>
<tr>
<td>Income and expenses from investments</td>
<td></td>
</tr>
<tr>
<td>Income and expenses from cash and cash equivalents</td>
<td></td>
</tr>
<tr>
<td>Profit before financing and income tax</td>
<td></td>
</tr>
<tr>
<td>Income and expenses from liabilities that arise from transactions that involve only raising of financing</td>
<td></td>
</tr>
<tr>
<td>Unwinding of the discount on provisions</td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td></td>
</tr>
</tbody>
</table>
**Appendix B: Summary of a Statement of Operations**


<table>
<thead>
<tr>
<th>Revenue (A)</th>
<th>Expense (B)</th>
<th>Net/gross operating balance (A – B)</th>
<th>Net/gross investment in non-financial assets (C)</th>
<th>Net incurrence of liabilities (G)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>Compensation of employees</td>
<td></td>
<td>Fixed assets</td>
<td></td>
</tr>
<tr>
<td>Social contributions (GFS)</td>
<td>Use of goods and services</td>
<td></td>
<td>Inventories</td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>Consumption of fixed capital (GFS)</td>
<td></td>
<td>Expenditure (D = B + C)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grants</td>
<td></td>
<td>Net lending (+) / Net borrowing (−) (GFS) (A – D) / (F – G)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social benefits (GFS)</td>
<td></td>
<td>Net acquisition of financial assets (F)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest (GFS)</td>
<td></td>
<td>Transactions in financial assets and liabilities (financing)</td>
<td></td>
</tr>
</tbody>
</table>

Transactions affecting net worth

Transactions in non-financial assets

Transactions in financial assets and liabilities (financing)
Appendix C: Statement of Operations

The table below is an illustrative statement of operations as set out in PSAB's Exposure Draft – Financial Statement Presentation, Proposed Section PS 1202.

<table>
<thead>
<tr>
<th></th>
<th>Budget 20X3</th>
<th>Actual 20X3</th>
<th>Actual 20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government transfers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income from government business enterprises</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums, permits, fees, fines, and licenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses (by function)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Social services</td>
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<td></td>
<td></td>
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<tr>
<td>Transportation and utilities</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, environment and development</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Recreation and culture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td></td>
<td></td>
<td></td>
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<td><strong>Surplus (Deficit)</strong></td>
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The impact of revenue raising on the economy, the relative contributions of revenue sources, and the revenue-producing capacity of investments.

The cost of the entity's economic resources consumed in carrying out its objectives (i.e., major programs).
Appendix D: Overview of Jurisdictional Responses to the IASB’s Proposals

1. Staff reviewed the responses to the IASB’s proposals across several jurisdictions, in order to assist the IPSASB with an understanding of the recommendations and improvements suggested by international accounting standard setters/accounting institutions. Staff has identified those responses that may have perspectives that may be useful in developing the IPSASB Project Brief.

**European Financial Reporting Advisory Group (EFRAG)**

2. EFRAG’s mission is to serve the European public interest in both financial reporting and sustainability reporting by developing and promoting European views in the field of corporate reporting and by developing draft EU Sustainability Reporting Standards.

3. In its financial reporting activities, EFRAG ensures that the European views are properly considered in the IASB’s standard-setting process and in related international debates. EFRAG ultimately provides advice to the European Commission on whether newly issued or revised IFRS Standards meet the criteria of the IAS Regulation for endorsement for use in the EU, including whether endorsement would be conducive to the European public good.

4. On 2 November 2020, EFRAG issued its Final Comment Letter on the IASB’s Primary Financial Statements project. In its Final Comment Letter, EFRAG welcomes the Exposure Draft (‘ED’) and the IASB’s efforts to improve the structure and content of the primary financial statements.

5. EFRAG supports the IASB’s proposals to present an operating, investing, and financing category in the statement of profit or loss to improve comparability and reduce diversity in practice. However, EFRAG has reservations about some of the proposals in the ED. For example:
   
   (a) clear guidance is needed on the notion of ‘entity’s main business activity’ to distinguish between categories in the statement of profit or loss;
   
   (b) the proposals should consider the interaction with existing regulatory frameworks on presentation of financial statements;
   
   (c) the newly created categories in the statement of profit or loss are not aligned with the presentation of cash flows in the statement of cash flows, despite using similar labeling,

6. EFRAG supports the IASB’s proposal to continue requiring entities to present an analysis of expenses using either by function or by nature method, based on whichever method provides the most useful information to the users of financial statements. EFRAG recommends the IASB to further investigate the cost/benefit profile of its requirement to disclose on a by-nature basis in the notes when presenting by-function on the face of the financial statements, and, if appropriate, consider focusing on information that is most needed by users.

7. EFRAG welcomes the IASB’s efforts to define unusual income and expenses and to require entities to disclose such items in the notes, however, the definition of unusual items seems to be rather narrow, as it focuses on whether expenses/income will occur in the future.

8. EFRAG welcomes the IASB’s efforts to provide guidance on Management Performance Measures (‘MPMs’). Nonetheless, EFRAG considers that not only subtotals on the face of the statement of profit or loss but also other measures, such as indicators of financial position or ratios, should be included in the scope of this requirement. In addition, EFRAG invites the IASB to consider:
(a) making the definition of public communication narrower, limiting the scope to the MPMs presented in public communications released jointly with the annual or interim reports;
(b) excluding from the scope the performance measures required by regulators; and
(c) extending the scope to cover possible MPMs presented in the financial statements but not in other public communications.

**Canadian Accounting Standards Board**

9. The Board is an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations, and pension plans in the private sector.

10. The Board has adopted IFRS Standards as issued by the IASB for publicly accountable enterprises. The Board developed separate sets of accounting standards for private enterprises, not-for-profit organizations, and pension plans.

11. Whilst the Board is supportive of the IASB’s objectives in developing the Exposure Draft, the Board encourages the IASB to consider striking an appropriate balance between users’ needs for better information about financial performance, and the effort and level of professional judgment required of preparers to generate that information.

12. The Board is concerned that, as a result of the proposed narrow scope, the label of ‘management performance measures’ will be misleading to users and other stakeholders who rely on measures other than subtotals of profit and loss to assess performance. As a result, a significant number of the management-defined performance measures that users rely on will not meet the proposed definition of a management performance measure.

13. The Board welcomes the IASB’s efforts to improve the structure and content of information presented in the primary financial statements, and its focus on providing better information about financial performance in the statement of profit or loss. Overall, the Board thinks the proposals will enhance the usefulness of the statement of profit or loss and strike an appropriate balance between addressing the information needs of users while allowing sufficient flexibility for entities to report their performance without undue cost or reporting burden.

14. The Board disagrees with the IASB’s proposals to require disclosure of unusual income and expenses unless the proposed guidance is strengthened with a view to improving users’ ability to understand, compare and forecast entities’ underlying, or persistent, financial performance.

15. The Board is of the view that the IASB’s proposals to require disaggregation of operating expenses either by nature or by function and to prohibit a mixed approach will not result in additional relevant information for users. During the Board’s consultations with users, they shared that a mixed basis of presentation is useful because it combines the most useful aspects of disaggregation by function and by nature of operating expenses. For example, disaggregation by nature is useful in predicting future cash flows, and disaggregation by function is useful in assessing performance. Accordingly, an entity should be permitted to present its operating expenses using the format that provides the most useful and relevant information.
Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants

16. FinREC applauds the IASB for attempting to provide structure and guidance on reporting of financial performance in the statement of profit and loss. Performance reporting is and has been an incredibly challenging topic for accounting standard setters for many reasons, with one being the difficulty of providing a framework that works for the variety of stakeholders across different types of business entities.

17. FinREC believes that as currently drafted, the proposals to discretely disclose unusual items and management performance measures in audited financial statements would not provide significant incremental benefit to users of the financial statements. FinREC observes that while the concept of unusual items might be useful, unusual items likely are a subset of items that would otherwise be contained in management performance measures (or already disclosed pursuant to other guidance), and management performance measures do not need to be included in the audited financial statements to enable some level of assurance to be provided on the measures.

18. FinREC believes it is confusing to use cash flow categories (operating, investing, financing) for the statement of profit and loss as defined in the proposed standard because the definitions are different from those used in the statement of cash flows. The disconnect between categories used in these two primary statements as to what is operating, financing and investing will (a) confuse investors, and (b) result in the need for additional disclosures and discussion to explain how the categories reconcile between the two statements.

19. FinREC does not support the notion of disaggregating dissimilar immaterial items. Either an item is material or it is not. By definition, disclosure of immaterial items is not necessary and an accounting standard should not be focused on immaterial items.

The Institute of Chartered Accountants in England and Wales (ICAEW)

20. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

21. ICAEW is a strong supporter of the IASB’s Better Communication project and welcomes many of the proposals outlined in the ED/2019/7 General Presentation and Disclosure. The proportionate and pragmatic approach adopted by the IASB in developing the proposals is welcomed. In particular, the decision to carry forward certain requirements from IAS 1 while making targeted changes to address specific issues. This approach is preferable to a complete re-draft of IAS 1

22. On balance, defining and presenting information on unusual income and expenses will be helpful for users of financial statements. However, for preparers, this will inevitably be open to interpretation and will require judgement to be exercised in this area.

23. ICAEW supports the IASB’s attempts to improve the disclosure of management performance measures within the financial statements and supports many of the proposals outlined in the exposure draft. However, the ICAEW is concerned with the proposed definition. which refers to
subtotals that are ‘used in public communications outside financial statements’, which is too broad. It would be more appropriate and realistic for the criteria to refer to any subtotals of income and expenses that are used within the ‘annual/interim reporting package’ e.g., the annual report or interim report, and results announcements/investor presentations relating to the same period as the annual or interim report.

24. Under the proposals it appears that the income statement cannot be used to present material items of income or expense that are necessary to understanding performance unless they fit into the nature or function analysis of operating expenses. This differs from the current requirements of IAS 1 which require the presentation of such items on the face of the income statement, if sufficiently material. Further clarity on this matter is needed to explain/illustrate how such items can be presented on the income statement, using either format.

The Pan-African Federation of Accountants (PAFA)

25. PAFA is the continental body representing Africa’s professional accountants. Their objective is to accelerate the development of the profession and strengthen the voice of the accountancy profession within Africa and worldwide.

26. PAFA agrees with the IASB’s proposal that all entities present in the statement of profit or loss a subtotal for operating profit or loss.

27. PAFA agrees with the proposal to provide application guidance to help entities determine the most appropriate presentation method for its operating expenses, however, PAFA does not agree with the proposal to provide an analysis of operating expenses by nature for those entities that present an analysis of expenses by function in the statement of profit or loss. The method an entity chooses to present should reflect the most useful information for its operations and as such any further disclosures are not likely to add greater value to users.

28. PAFA is concerned by the subjective nature of the ‘unusual income and expenses’ definition provided, as well as its similarity to the now removed definition of extraordinary items in terms of the likelihood of it being inconsistently applied in practice. It would be more appropriate to discuss unusual items as part of the disclosure of the related asset/liability as opposed to it being a specialized note.

29. PAFA does not support the inclusion of management performance measures in IFRS Financial Statements on the basis that this information is already largely available elsewhere within annual reports and including it in the financial statements could potentially create clutter and not to mention be a costly exercise from a reconciliation and audit perspective.

The Accounting Standards Board of Japan (ASBJ)

30. The ASBJ, under the auspices of the Financial Accounting Standards Foundation, is responsible for the development and deliberation of accounting standards in Japan. The ASBJ is a private sector independent accounting standard-setting board which also contributes to the development and improvement of international accounting standards.

31. Financial statements are prepared, in principle, in accordance with accounting principles generally accepted in Japan (J GAAP) as issued by the ASBJ. For consolidated financial statements of listed companies, use of IFRS Standards (‘Designated IFRS’), Japan’s Modified International Standards (JMIS) and US GAAP is also permitted. JMIS are the new set of accounting standards inaugurated
by ASBJ in 2015 and developed based on the endorsement process of accounting standards and interpretations issued by the International Accounting Standards Board. With the introduction of JMIS, there are four accounting frameworks that the listed companies in Japan may use, but the voluntary application of IFRS Standards is continuously expanding.

32. The ASBJ agrees that there is room for improvement in this area and appreciate the IASB's efforts to address issues that exist in this area, however, there are many proposals in the ED that the ASBJ does not support.

33. The ASBJ disagrees with the proposal in the ED to require an entity to present three new subtotals in the statement of profit or loss. Many preparers of financial statements in Japan hold the view that financial statements should allow entities to "tell the story" and, in this context, entities should present subtotals which they believe are relevant for the understanding of their financial performance. The ASBJ is concerned that the proposals may lead to the misunderstanding that only those subtotals defined by IFRS Standards would truly represent an entity's financial performance but any other subtotal would not.

34. Regarding the proposals related to management performance measures in the ED, the ASBJ thinks that the definition and the scope thereof is unclear. The ASBJ proposes that management performance measures should be defined as "performance measures that are permitted to be presented, subject to reconciliation, if an entity determines that the subtotals defined by IFRS Standards do not appropriately represent its financial performance".

**New Zealand Accounting Standards Board**

35. The New Zealand Accounting Standards Board has delegated authority from the External Reporting Board to develop and issue New Zealand's accounting standards.

36. The Board supports many of the proposals in the ED, however, there are some areas where they disagree or recommend improvements.

37. In relation to the proposed new categories of ‘operating’, ‘investing’ and ‘financing’ in the statement of profit or loss, the Board strongly recommends that the IASB considers using different terms or more descriptive terms than those used in the statement of cash flows. Using the same terms as the statement of cash flows, but with a different meaning will be very confusing for users of financial statements.

38. The Board does not agree with the proposal that an entity should present in the operating category of the statement of profit or loss an analysis of expenses using a classification based on either the nature or function of the expense. The Board's view is that companies should be allowed the flexibility to determine the most appropriate analysis of expenses, even if that results in a mixed analysis.

39. The Board does not agree with the IASB proposals to define and require disclosure by all entities of unusual income and expenses. IAS 1 already includes a requirement to separately disclose the nature and amount of material income and expenses (paragraph 97). Paragraph 98 of IAS 1 includes examples of circumstances that would give rise to the separate disclosure of income and expenses, which consist of "unusual or infrequently occurring items”.

40. Whilst the Board agrees that management performance measures provide useful information and should be included in the financial statements (as this will bring more transparency and discipline to the reporting of these financial performance measures), the Board has concerns that limiting
management performance measures to financial performance measures that are subtotals of income and expenses will mean in some cases only a subset of the non-GAAP financial measures used by management in its public communications will be management performance measures. The remainder of the non-GAAP financial measures used by management will continue to be reported outside the financial statements, for example, in management commentary.