



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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DATE: 15 JUNE 2003
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: PAUL SUTCLIFFE
SUBJECT: **IPSAS, GFS, ESA 95 HARMONIZATION**

ACTION REQUIRED

For your information.

Pages

AGENDA MATERIAL:

14.2 Agenda for meeting of IPSAS/GFS/ESA95 Working Group	14.2-14.3
14.3 Participants at Convergence meeting	14.4
14.4 Draft Report of meeting	14.5-14.9

BACKGROUND

In June 2003 representatives of the PSC, IMF, ESA95, Australian Accounting Standards Board and UK Treasury met to explore possibilities for convergence of IPSASs/GFS/ESA95. The agenda for that meeting, participants at the meeting and a draft meeting report are attached for your information.

At the forthcoming PSC meeting, the Chair will provide a verbal report on the meeting and an update on subsequent actions.

**INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE
UPDATED AGENDA – 2nd DISTRIBUTION of PAPERS**

WORKING GROUP on GFS, ESA IPSAS HARMONISATION/CONVERGENCE
Meeting to be held at: Room MC11-598, 11th floor The World Bank, 1818 H Street, N.W.
Washington, DC 20433, USA (Tel: + 1 202 473 1000)
From 9.00am Wednesday 4 June to 4:00pm Thursday 5 June 2003

AGENDA	DOCUMENTS	DISCUSSION LEADER	TIME
COFFEE SERVED	Wednesday	Wednesday	8:45 to 9:00
1(a) WELCOME AND APOLOGIES 1.1 Welcome from Chair 1.2 Introductions 1.3 Receive and note the Meeting Timetable 1.4 Background to meeting 1.5 Purpose/objectives of meeting 1.6 Brief statement from each “delegation” identifying concerns/issues 1(b) BACKGROUND 1.7 Identification of key bodies responsible for setting standards for SNA, GFS, ESA, IFRSs and IPSASs and outline of the processes adopted 1.8 Relationship between, and use of, IPSAS/IFRSs/IASs 1.9 Update on FAWP meeting 1.10 Update on potential OECD Project 1.11 Identify any additional issues for consideration	<ul style="list-style-type: none"> • Agenda • Attendance List <ul style="list-style-type: none"> • Verbal Report • FAWP Agenda • OECD Paper 	<ul style="list-style-type: none"> • Ian Mackintosh (PSC Chair and Chair of the Working Group) <ul style="list-style-type: none"> • Each delegation <ul style="list-style-type: none"> • Paul Cotterell -SNA, GFS • Dieter Glatzel -ESA • Ian Mackintosh - IFRS/IPSAS <ul style="list-style-type: none"> • Ian Mackintosh • Dieter Glatzel • Francois Lequiller • All 	9:00 to 10:00
2 REPORTING <i>Participants should feel free to also address matters raised under item 3 “Planned Updates” during this session.</i> 2.1 Outline of Current Reporting Requirements/Practices under: ESA 95 GFS IPSAS	<ul style="list-style-type: none"> • Eurostat Paper/PPoint • IMF Power Point* • Staff paper 	<ul style="list-style-type: none"> • Dieter Glatzel/Lucien Peters • Paul Cotterell/Betty Gruber • Paul Sutcliffe 	10:00 to 11:00
MORNING TEA			11:00 to 11:15
2 REPORTING (Continued) 2.2 Country Reports UK- Reporting under GAAP and ESA Australia- Reporting under GAAP and GFS	<ul style="list-style-type: none"> • HM Treasury Paper • Australia Paper 	<ul style="list-style-type: none"> • Ian Carruthers/Graham Jenkinson • Robert Keys 	11.15 to 12.00

AGENDA	DOCUMENTS	DISCUSSION LEADER	TIME
3 PLANNED UPDATES GFS, ESA IPSAS SNA - Future developments GFS - Future developments ESA 95 – Future developments UK - Statistical and Financial Reporting Australia - Statistical and Financial Reporting PSC Work Program 2003 – 2005	<ul style="list-style-type: none"> • Verbal Report • IMF Paper*/Verbal Report • See 2 above • UK Paper/verbal Report • Australia Paper PSC Work Plans/Update 8 	<ul style="list-style-type: none"> • Francois Lequiller • Paul Cotterell/B Gruber • Dieter Glatzel/L Peters • Ian Carruthers/G Jenkinson • Robert Keys • Paul Sutcliffe 	12.00 to 12:30
LUNCH			12:30 to 1:30
4 DIFFERENCES GFS, ESA, IPSAS AND NATIONAL BASES Conceptual Vs Technical Issues and issues of Principle Vs Practice ESA 95 – GFS GFS - IPSAS UK GAAP-ESA Australia statistical reporting interpretations	Australian paper <ul style="list-style-type: none"> • Eurostat Paper- PPoint • IMF paper/ PPoint* • Verbal report • PSC staff paper • UK paper • Australia paper* 	<ul style="list-style-type: none"> • Robert Keys • Dieter Glatzel/L. Peters • Paul Cotterell/ B Gruber • Paul Cotterell/ B Gruber • Ian Mackintosh/P Sutcliffe • Ian Carruthers/G Jenkinson • Robert Keys 	1:30 to 3:30
AFTERNOON TEA			3:30 to 3:45
DIFFERENCES (continued)		All	3:45 to 5:30

THURSDAY			
COFFEE SERVED		Thursday	8:45 to 9:00
5 IASB –PERFORMANCE REPORTING PROJECT Update on IASB Project Implications of IASB Project	PSC staff paper Australia Paper	<ul style="list-style-type: none"> • Paul Sutcliffe • Robert Keys 	Thursday 9.00 - 9:30
6 PROGRAM FOR REDUCTION OF DIFFERENCES Introductory Comments and general observations on way forward. <i>Initial Observations from PSC Chair and OECD.</i> <i>General discussion by all participants</i>	<ul style="list-style-type: none"> • PSC staff paper on military platforms • Australian Paper* 	<ul style="list-style-type: none"> • Chair • Francois Lequiller • Robert Keys 	9.30 to 11:00
MORNING TEA			11:00 to 11:15
Identification of potential issues for reconciliation	<ul style="list-style-type: none"> • Introduction • Australian Paper* 	<ul style="list-style-type: none"> • Chair • Robert Keys 	11:15 to 1:00
LUNCH			1:00 to 2:00
– Actions – Next meetings – Input for Strategy Group		<ul style="list-style-type: none"> • Chair • All 	2:00 to 4:00

* *Papers to follow or to be tabled*

**INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE
WORKING GROUP ON GFS, ESA, IPSAS CONVERGENCE
WASHINGTON – 4TH TO 5TH JUNE 2003**

Australia

Robert Keys	Senior Project Manager, Australian Accounting Standards Board
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European Union (EU)

Dieter Glatzel	Head, Public Finance Unit, Eurostat
Lucien Peters	Expert Advisor, Public Finance Unit, Eurostat

International Monetary Fund (IMF)

Paul Cotterell	Advisor, Statistics Department
Rifaat Basanti	Deputy Division Chief, Government Finance Division, Statistics Department
Betty Gruber	Senior Economist, Government Finance Division, Statistics Department

OECD

François Lequiller	Head of National Accounts, OECD.
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Public Sector Committee

Ian Mackintosh	PSC Chair
Paul Sutcliffe	PSC Technical Director

United Kingdom

Ian Carruthers	Head of Whole of Government Accounts Programme, Her Majesty's Treasury
Graham Jenkinson	Director of National Expenditure and Income Division, Office for National Statistics. UK

Observers

Ethan Weisman	Senior Economist, Government Finance Division, Statistics Department, IMF
Phillipe de Rougement	Economist, Government Finance Division, Statistics Department, IMF
Anne Kester	Economist, Government Finance Division, Statistics Department, IMF

**GFS/ESA95/SNA/IPSAS Convergence Working Group
Draft Report - Meeting - 4 and 5 June 2003 -Washington DC**

Overview

- The meeting was chaired by the PSC and attended by representatives of the IMF, OECD, Eurostat, the AASB and the UK Treasury and ONS. A full list of attendees is attached.
- The Chair welcomed all attendees and noted that the PSC had initiated the meeting primarily to further the convergence of IPSASs and GFS, as outlined in GFSM2001, and to explore the potential for also enhancing the convergence of IPSASs and the requirements of ESA 95.
- The meeting was very positive and constructive, with strong input from all participants. The purpose of the Working Group is to identify the main differences between IPSASs, the GFSM 2001, and ESA95/1993 SNA to ascertain whether harmonization and convergence is possible for some or all of these differences; and where differences remain, to assess the need for, and format of, reconciliation statements.
- The meeting discussed the roles, lexicon, procedures, and work programs of the various institutions and related accounting and statistical standards, the harmony within each of these standards, and the due process for changes to these standards. The meeting was helpful in educating participants on the different frameworks used by statisticians and accountants. In particular, differences in coverage, presentation, consolidation techniques, and treatment of “other economic flows” were explained. Papers also were presented on experiences in the move to accrual accounting in Australia, the UK, and South Africa.

Clearly there is a great deal of interest in the work of each Group, a growing acknowledgement that the work of each Group overlaps at various points and it is desirable that we increase the opportunities for co-operation and co-ordination of activities where possible, and a common view that where appropriate and possible convergence of the requirements of GAAP and the requirements of statistical reporting models should be pursued. Participants noted that this encounter also presented an opportunity to collaborate further on database sharing and data reporting.

- However, it was also noted the objectives and reporting focus of IPSASs, GFSM 2001 and ESA95 may differ in certain respects. Accordingly, full harmonisation may not be possible nor, where it undermines the objectives of any model, desirable.
- ESA95 and GFSM 2001 are developed within the context of SNA. Major changes to ESA95 and GFSM 2001 can only occur when SNA is revised. The OECD representative noted that the SNA is to be revised by 2008. It was also noted that interpretation of SNA could be made and this also provided an opportunity for convergence.

- There was agreement on a broad strategy for the role of the Group in the short term, including its input to:
 - potential reviews of SNA; and
 - technical agendas of Eurostat and its relevant Interpretations Committees; the IASB, the IMF (including any IMF working groups developing methodological and other guidance to the GFSM 2001 manual), the OECD and its relevant Task Forces and the PSC and its relevant Steering Committees. (See below: Role of Working Group)

Role of the Working Group

It was agreed that:

- There was a role for the working group in fostering a greater co-operation and co-ordination of developments in IPSASs, GFS and ESA95
- As appropriate and when opportunities present themselves, the Group would make submissions to the ISWGNA (InterSecretariat Working Group on National Accounts), PSC and others in an attempt to identify interpretations that reinforce convergence.
- The Group was not authoritative itself and was not a decision making body, but would operate as a conduit to the relevant Committees and Boards.

Future action

The meeting arrived at the following strategy for working towards convergence:

- A paper (based on the paper prepared by PSC staff as input to this meeting) comparing GFSM 2001 and IPSAS will be updated and expanded by IMF staff and will be made available to interested parties, including to the OECD for inclusion on its Electronic Discussion Group website. (see below).
- The OECD will establish an electronic discussion group (EDG) in the context of their “Project for the convergence of general government macroeconomic accounts” to broach some of the identified differences in more detail. The initial discussion paper for the EDG will be based on the finalized GFSM 2001- IPSAS paper. In this context, it was noted that IPSASs and GFSM adopted a public sector focus and the scope of the EDG and the GFSM 2001- IPSAS paper would be broader than general government.
- Australia was invited to distribute relevant convergence papers prepared for consideration by the AASB or other bodies as appropriate to participants at the meeting. If invited, participants may then provide comment on an individual basis and would indicate the extent to which they reflect an organisation view. Comments made would be circulated to all participants to determine if group members have a common view.

- A meeting of this Washington June 2003 Convergence Group is scheduled for October 3, 2003. This meeting will be hosted by the OECD in Paris and the PSC staff will provide organizational support. The purpose of the meeting is to:
 - take stock of progress on convergence of IPSASs, GFSM 2001 and ESA 95;
 - identify future action to progress harmonization/reconciliation of IPSASs and GFSM 2001, and consider potential to include convergence with ESA 95 as part of such action;
 - confirm the list of issues to put to ISWGNA; and
 - consider, and make recommendations on, the establishment and work program of a larger OECD Task Force on the harmonisation of international standards on general government accounts (GGA), including recommendations for the membership and Chair of the new OECD Task Force.

It is anticipated that the larger OECD Task Force meet at the beginning of 2004 and again at the beginning of 2005, perhaps in conjunction with the OECD Senior Budget Officials' meetings. It was noted that although the OECD Task Force would focus on General Government Sector (GGS) issues (which is the focus of the SNA), there would be scope for it to address "Whole of Government/Public Sector" issues as well. It is intended that the OECD Task Force include involvement from those attending the Washington June 2003 Convergence Group meeting (PSC, IMF, Eurostat, UK, Australia) as well as other countries. It was agreed that the new OECD Task force will be the primary forum under which longer term SNA convergence issues are resolved and that it would be staffed by the OECD.

- The OECD representative will circulate to members of this group (this IPSAS/GFS/ESA95 Convergence Group) for out of session comment a draft list of issues that should be considered in the next review of SNA. (Comment are to include views on the appropriate groupings/priorities of the issues.) The agreed list will then be submitted to ISWGNA by November 2003. (The ISWGNA will then review the issues in early 2004 with the objective of making recommendations for the amendment of SNA (and consequently GFSM 2001 and ESA95).

The meeting process

- Participants provided an outline of the requirements of each of IPSASs, GFSM 2001 and ESA95 and likely developments in the future. Major areas of potential differences were identified. It was noted that in practice in gathering/developing data from operating entities, interpretations and applications of broad concepts were often necessary, it was desirable that a common data base was employed for accounting and statistical reporting and this may well result in a narrowing of the technical differences between IPSASs/GAAP and statistical bases.
- The former Accountant General of South Africa outlined that significant progress had been made in South Africa in adopting accrual accounting and developing an efficient and effective data collection and presentation system that facilitates the

extraction of IPSAS compliant financial reports and (separate) GFS compliant reports.

- ESA95 requirements are reflected in European Union laws and regulations. Eurostat has developed (and continues to develop) guidance on the implementation of ESA 95 in the Debt and Deficit Manual within the parameters of that legislation. Given the need to resolve Debt and Deficit Manual interpretations on a timely basis, it was noted that Eurostat could not wait for input from a broad interest group (such as that represented at this meeting).
- Interpretations aside, the major difference between ESA95 and GFSM 2001 are:
 - Form of presentation – GFSM 2001 adopts financial statement presentations while ESA 95 adopts an account form of presentation;
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 - Method of dealing with employee provisions – ESA95 does not recognise a liability for unfunded pensions, GFSM 2001 does; and
 - Coverage/scope – GFSM 2001 encompasses the public sector, while ESA95 tends to focus on the general governmental sector. There was considerable discussion about the boundary of the public sector and the focus of convergence efforts - general government or the whole public sector. It was strongly argued that the only rational level was public sector. This was because general government owns and controls public corporations.
- It was noted that a mechanism to deal with differences between the objectives of GFSM 2001 and IPSAS and present a single set of financial statements was:
 - to prepare for accountability purposes a general purpose financial statement in accordance with IPSASs/GAAP; and
 - include as notes to the financial statements disaggregated reports prepared in accordance with GFSM 2001 requirement for the general government sector (GGS), the financial public corporations sector, and the non-financial public corporations sector.
- The importance of information about the GGS for economic analysis was noted.
- It was noted that segment reporting may provide a means by which GFS sector reporting could be provided in the context of Whole of Government financial reports (but that this may require a review of IPSAS 18).
- There was considerable discussion about the determination of net worth and use of consolidation techniques. It was noted that under SNA/ESA/GFS the general government measure of net worth reflects the whole of government net worth. This is because statistical models use an equity accounting method of consolidation of controlled entities. However, statistical bases of reporting for the public sector and IPSASs adopt a full consolidation technique.
- GFSM 2001 and ESA95 require assets and liabilities to be measured at their market value and to report “value and volume” adjustments separately from other

transactions. The importance of the IASB's performance reporting project as a means of converging this aspect of IPSAS and statistical reporting formats was noted. It was agreed that the PSC Chair would bring this to the attention of the IASB. IMF representatives also agreed to consider further whether it was appropriate that the IMF write to the IASB with a similar message.

- The linkage between the work of Eurostat and the Steering Committee on Non-Exchange Transactions was noted. At the invitation of the PSC Chair, Dieter Glatzel undertook to attend the next meeting of the Steering Committee as an observer if possible.
- The Following Technical Issues were discussed:
 - Definition of capital injections (contributions from owners) – Eurostat is contemplating guidance on this issue. That guidance is likely to require that classification be based on the substance of the transfer rather than relying on designation by the transferor - the relationship of this issue to the work of the PSC's Non Exchange Revenue Steering Committee was noted.
 - Public Private Partnerships – Eurostat is considering whether a balance of risks (and if so, hierarchy of risks) or a control basis should be adopted (indications are that a balance of risks basis will be adopted). It may also consider a components approach. It was noted that this was an issue identified by the PSC for inclusion on its (PSC) work program, but that the matter had not been actioned as yet
 - Measurement of unquoted shares
 - Pension Schemes – there is potential for change under SNA. It was noted that the PSC was awaiting the completion of the IASB project before it actioned a project on the review of IAS 19 on employee benefits.
 - Defence weapons – there is potential for change under SNA. (The PSC submission to the OECD task force was included in the agenda papers.)
 - Doubtful debts – there is potential for change under SNA
 - Non-exchange transactions/transfers (and partitioning between exchange and non-exchange) - the relationship of this issue to the work of the PSC's Non Exchange Revenue Steering Committee and the IASB's performance reporting project was noted.
 - Timing of recognition of taxes (general agreement was that it should be for reliability of measurement at the time of the underlying transaction occurs, though in practice it may need to be at the time of assessment)
 - Uncollectible taxes- the relationship of this issue to the work of the PSC's Non Exchange Revenue Steering Committee was noted.
 - Tax credits- the relationship of this issue to the work of the PSC's Non Exchange Revenue Steering Committee was noted.
 - Reinvested earnings
 - Changes in estimates
 - Asset valuations (in particular non-financial assets and whether for non-cash flow assets, valuation can be determined by depreciated replacement cost or value in use or some other basis. Other issues to be considered include: indexing versus comprehensive valuations; frequency of valuations and

- “rolling valuations”). The requirements of relevant IPSASs and the forthcoming PSC Exposure Draft on impairment of assets was noted
- Treatment of changes in value of financial assets/liabilities – splitting the change in value between the effect of change in market interest rates (affecting interest revenue/expense) versus holding gains. It was noted that the PSC was awaiting the completion of the IASB project before it actioned a project on the review of IAS 39 on recognition and measurement of financial instruments.
 - Constructive obligations (it was noted that these would not be recognised in GFSM 2001 unless a counterpart holder of the asset was identified). The guidance in IPSAS 19 on provisions and the relationship of this matter to the work of the PSC’s Social Policy Obligation Steering Committee was noted.
 - Intangible assets – this matter is being discussed by the Canberra II Group
 - IMF special drawing rights
 - Subscriptions to international agencies
 - Investment properties. IPSAS 17 on investment properties was noted.
 - Accounting for errors – potential change in IPSAS
 - Accounting for changes in estimates
 - Accounting for other decisions/matters with retroactive effect
 - Presentation of financial information. IPSAS 1 on presentation of statements of financial position, performance and changes in net assets/equity; IPSAS 2 on cash flow statements; and the status of the IASB’s performance reporting project were noted.
- It was noted that for ESA 95/Excessive Deficit Procedure the Net Lending/Borrowing rather than an operating result was the primary focus of the statement of financial performance or equivalent statement. This was because Net Lending/Borrowing provides a financing balance and is close to what has historically (before accrual accounting) been regarded as the Surplus/Deficit. The GFSM 2001 emphasizes the operating result as well as Net Lending/Borrowing.
 - It was noted that some of the challenges for achieving convergence relate to terminology, and the consequence of that terminology. For example, the term “exchange transaction” is common between GFSM 2001 and IPSAS. However, the term “transfer” is used in GFSM 2001 in contrast to “non-exchange” in IPSAS. Other terminology differences discussed included the meaning under each model of: provision, segments, sectors, revaluation.
 - The desirability of co-ordinating convergence activity at an international level was noted. However, it was recognised that certain issues had arisen/might arise in Eurostat and Australia, and other jurisdictions, that needed to be dealt with as a matter of priority.