



DATE: 7 OCTOBER 2004
MEMO TO: MEMBERS OF THE IFAC PUBLIC SECTOR COMMITTEE
FROM: PAUL SUTCLIFFE
SUBJECT: **CONVERGENCE OF IPSAS AND STATISTICAL REPORTING
BASES**

ACTION REQUIRED

The Committee is asked to:

- **review** the updated project brief on Disclosure of Financial Information about the General Government Sector (GGS) and provide directions to staff for preparation of the first draft of an exposure draft;
- **review** the attached draft Research Report on differences between IPSASs and statistical bases of financial reporting with a view to its approval for issue; and
- **consider** ongoing participation in the International Task Force on Harmonisation of Public Sector Accounting (TFHPSA), including leadership of Working Group 1 of that Task Force.

AGENDA MATERIAL:

	Pages
13.2 Agenda for September 2004 meeting of the International Task Force on Harmonisation of Public Sector Accounting (TFHPSA) and Working Groups 1 and 2	13.5 – 13.8
13.3 Draft Minutes of September TFHPSA meeting	13.9 – 13.26
13.4 Updated Project Brief on Disclosure of Financial Information about the GGS, including PAP comments and staff views	13.27 – 13.43
13.5 Additional PAP comments on the GGS Project Brief	13.44 – 13.50
13.6 Draft Research Report “IPSAS and Statistical Bases of Financial Reporting: an analysis of difference and recommendations for convergence”	2 nd distribution

BACKGROUND

September Meeting of the TFHPSA

A meeting of the International Task Force on Harmonisation of Public Sector Accounting Standards (TFHPSA) including its Working Groups 1 and 2 took place on September 22-24. Working Group 1 deals with GFS, ESA 95, SNA and IPSAS convergence. Working Group 2 deals with proposals for revision of the System of National Accounts (SNA). Both Working Groups report to the Task Force. The Task Force oversees and co-ordinates the activities and recommendations of each of the Working Groups and forms a link to other components of the SNA review process.

The Agenda for the September meeting of the THPSA and the mandate of the TFHPSA are attached at Agenda item 13.2. Copies of the papers prepared for consideration at that meeting are available on request.

The draft minutes of the TFHPSA meeting, including a list of participants, is included at agenda item 13.3. (Please note these minutes are still subject to review by participants and final confirmation.)

The PSC Chair is a member of the Task Force but was unable to participate in this meeting because of prior commitments. PSC member Carmen Palladino and the PSC Technical Director participated in discussions at the TFHPSA and its Working Groups. The PSC's significant role in the establishment of the Task Force was publicly acknowledged by the TFHPSA Chair in opening the meeting. During the course of the meeting participants expressed their appreciation for the PSC's ongoing contribution to the work of the Task Force and its Working Groups, and for the inclusion of key convergence projects on the PSC's work program.

Many of the issues discussed during the first two days were of primary importance for SNA and GFS. However, during the course of the meeting a number of issues for potential convergence were raised, including the IPSAS/SNA notions of control (though terminology differences, rather than substantive difference, remain an issue), application of equity accounting in statistical reporting models, the potential for provisioning for bad and doubtful debts in GFSM 2001, and the notion of tax credits in the PSC- ITC "Revenue from Non-Exchange Transactions" (again terminology differences is an issue). The treatment of guarantees under IPSASs/SNA and the notion of proportional consolidation when joint control existed were also discussed. A verbal update on these matters will be provided at the meeting. There was also an appreciation that in some cases differences between IPSASs and statistical bases of financial reporting would be appropriate given the different objectives of IPSASs and statistical reporting models. This was particularly so in respect of the need for full consolidation and "averaging" over a number of periods in financial reports.

The third day of the meeting focused on WG1 issues, and therefore PSC matters. TFHPSA members as well as WG1 members participated in the WG1 meeting. Participants noted the work program of the PSC and discussed in detail the PSC's General Government Sector (GGS) project brief. In this capacity, the WG1 and other members of the TFHPSA were operating as the PSC's Project Advisory Panel (PAP) on this project.

Background to the GGS project and details of the discussion follow.

Disclosure of Information about the General Government Sector in GPFS

The PSC considered recommendations for potential PSC projects made by Working Group I (WG1) at its March 2004 meeting. One of those recommendations was that the PSC develop an IPSAS dealing with the disclosure of financial information about the general government sector as defined in statistical reporting models.

The PSC directed staff to prepare a project brief for consideration at the PSC's July 2004 meeting. Members of WG1 were invited to form a Project Advisory Panel (PAP) to provide input to staff in drafting the Exposure Draft. Staff had a positive response to this invitation from several WG1 members. No WG1 members indicated that they were unable or unwilling to join the PAP.

A first draft project brief was prepared by staff and considered by the PSC at its meeting in July 2004. That project brief included staff recommendations on key issues. The PSC discussed the issues and the staff recommendations, noted it did not wish to make decisions that would pre-empt input from the PAP, and directed staff to update the project brief to reflect PSC discussion and forward it to the PAP for comment and input. The PSC noted that a meeting of WG1 of TFHPSA may occur in September 2004, and that the draft project brief could usefully be discussed at that meeting.

The project brief was updated as directed and distributed to all WG1 members. It was also included on the Agenda for discussion by WG1 members during the TFHPSA meeting in September 2004. There was a detailed discussion of the project brief at that meeting by all TFHPSA members. The project brief has been updated to summarize views and recommendations of participants in the TFHPSA meeting, and identify staff views thereon. (References to input from the PAP in the updated project brief encompass the views of WG1 members and other members of the TFHPSA.) In addition, responses from WG1 members not at the September TFHPSA meeting are included at item 13.5.

The project brief is attached at item 13.4. The section headed *PSC Discussion - July 2004* was added after the PSC meeting in July 2004. This section was included in the project brief distributed to WG1 members and the TFHPSA in late July 2004. Sections headed *PAP Comments – September 2004* and *Staff View - October 2004* were added after the TFHPSA meeting in September.

Members are requested to provide staff with directions for the development of a first draft Exposure Draft (ED). If development of an ED is approved at this meeting, work will commence with a view to preparing a first draft exposure draft for consideration by the PSC at its March 2005 meeting.

Performance Reporting – Background and Current Status

WG1 recommendations considered by the PSC in March 2004 included a recommendation that the PSC activate a long term project to develop a comprehensive report of financial performance that distinguishes between transactions and other economic flows as defined in GFSM 2001, as far as is possible. At its March 2004 meeting, the PSC agreed that a performance reporting project was important and should be activated. However, the PSC also noted that in the development of the performance reporting project it would need to:

- be cognizant of developments in the IASB's project "Reporting Comprehensive Income"; and
- balance its twin objectives of converging with IASs/IFRSs and with statistical financial reporting bases.

As such, the PSC project may not exactly track the recommendations of WG1 because of the IAS/IFRS convergence components of its work program.

At its July 2004 meeting the PSC noted that the IASB's performance reporting project had been delayed and then reactivated as a joint project with the UK-AcSB and the USA-FASB. The first stage of that IASB (joint) project will be the development of discussion papers. The PSC agreed that the performance reporting project brief should not be finalized until staff have a better feel for the IASB (joint) project and can develop a project brief that responds to both the IASB project and WG1 recommendations. The PSC also noted that it would be desirable that there be some PSC involvement on any Steering Committee established to progress this project and the likely first step in the PSC process would be the issue of an Invitation to Comment or Discussion Paper.

This project was discussed briefly at the WG1 meeting in September 2004. There was an acknowledgement that the PSC approach to this project (seeking convergence with both IFRSs and statistical reporting models) was appropriate and desirable. There was also a sense, particularly from representatives of national standard-setters and similar authoritative bodies who were present, that it was too early for the PSC to develop a project brief.

Staff continue to monitor progress on the IASB (joint) project and anticipate that a project brief will be prepared for consideration by the PSC in early 2005.

THE “MATRIX”

At its meeting in March 2004, the PSC considered a “matrix” developed by the members of Working Group 1 who met in Paris on February 6-7, 2004 to identify differences between the requirements of IPSASs and GFS and ESA 95.

The PSC was of the view that the matrix was a most useful piece of work and should be more widely disseminated. PSC members raised the possibility that it be issued as an Occasional Paper or Research Report in the PSC series of publications, with due recognition of the members of WG1 who were responsible for its development. The paper could then be used by other groups as appropriate and further developed by interested parties in the future. Some PSC members noted that the paper would need to be updated, and revised for publication including:

- noting that recommendations for change may be made to various groups. However, the majority of recommendations herein were specifically directed to the PSC because it was felt that in some cases the PSC was in a better position to pursue convergence;
- re-labeling the final column as Working Group Recommendations, and noting recommendations that might be made to other groups; and
- developing introductory sections of the paper, and refining and further developing the appendices.

In late April 2004, Ian Mackintosh, then Chair of the WG1, wrote to WG1 members involved in the development of the matrix to seek permission to further develop and issue the matrix as an Occasional Paper or Research Report. Ian also proposed that he, Betty Gruber, Robert Keyes and Paul Sutcliffe take on the task of finalizing the paper for publication. Those at the Paris meeting of WG1 responded positively to this proposal. The PSC agreed that it would consider the updated paper at its November 2004 meeting, with a view to agreeing its publication.

The paper has been updated and is currently being finalized for inclusion in the second distribution of materials to the PSC for its November 2004 meeting. It has been developed as a draft Research Report along similar lines to the PSC “Budget Reporting” Research Report issued in May 2004. The draft Research Report will also be sent to the WG1 members who met in Paris for their final sign off and/or comments when it is distributed to PSC members. Comments received from those WG1 members on the draft Research Report will be tabled at the forthcoming meeting.

The paper is included in the Agenda of this meeting for PSC approval to issue, subject to any final amendments.

Ongoing membership of the Task Force and role in Working Group 1

As noted above, the PSC Chair, Philippe Adhémar, is a member of the TFHPSA. The Chair of the TFHPSA, Ms Lucie Laliberté, is keen for there to be ongoing PSC involvement and possibly leadership of WG1.

At this meeting it is proposed that the PSC consider its ongoing participation in WG1 and the availability of members to serve on and/or lead WG1.

Paul Sutcliffe

PSC TECHNICAL DIRECTOR

AGENDA For:
Meeting on the Task Force on Harmonization of Public Sector Accounting
Second Meeting
International Monetary Fund
Washington, DC
Wednesday, September 22-Friday, September 24, 2004
Room 2-530, Main building of IMF

The international Task Force on Harmonization of Public Sector Accounting (TFHPSA) works at enhancing the harmonization between statistical guidelines and accounting standards, and at updating statistical guidelines for the public sector. The TFHPSA was created in 2003 and is the first formal initiative at the international level that attempts to harmonize statistical guidelines and accounting. It is also recognized as the forum to provide guidance in the area of public sector statistics for the forthcoming update of the *System of National Accounts 1993 (1993 SNA)*.

The Task Force, which is chaired by the IMF, operates on the basis of two working groups (WGs), with WGI that focuses on harmonization of statistical and accounting standards and is chaired by the International Federation of Accountants—Public Sector Committee (IFAC—PSC); and WGII that focuses on inputs to the update of the *1993 SNA* and is chaired by the OECD, that also acts as secretariat. The task force membership includes national statisticians and public sector accountants, and international agencies (European Central Bank, Eurostat, International Monetary Fund, IFAC—PSC, OECD, World Bank).

The [September 22-24, 2004 meeting](#) of the [Task Force](#) is being sponsored by the Statistics Department of the IMF. It is the second meeting of the Task Force, following that held in February 2004 at the OECD in Paris. The intent of the meeting is first to take stock of the progress that has been made with the work program since the last meeting. To this end, it will review the work done by WGI and by the five teams of WGII. The meeting will then review the work that would need to be done in preparation for the update of the *1993 SNA*. Finally, it will begin the work leading to an Appendix that would be included in the updated version of the *1993 SNA*. The [agenda](#) of the meeting is available below.

The discussions and decisions reached during the meeting will be communicated to the Advisory Expert Group in charge of the update of the *1993 SNA*, as well as the IFAC—PSC.

If you wish to become member of the TFHPSA and to have access to all the documentation, please contact Jean-Pierre.Dupuis@oecd.org. If you wish to participate in the September 2004 meetings, please submit your request to Mr. Keith Dublin, Chief of the Government Finance Division, Statistics Department, IMF at kdublin@imf.org. The subsequent meeting of the TFHPSA will be held in Paris in February 2005 to coincide with the meeting of the Senior Budget Officers.

Working Group II (WG II) September 22 and 23, 2004

Date and time	Topic	Documents	Discussion Leader
<i>Wednesday, September 22</i>		(will be included as PDF files when available)	
9:15 a.m.	Coffee		
9:30 a.m.	Opening remarks		Director, Statistics Department, IMF
9:45 a.m.	Update since the February 2004 TFHPSA meeting	Relationship Between Macroeconomic Statistical Guidelines and Accounting Standards	Lucie Laliberté
10:30 a.m.	Coffee Break		
10:45 a.m.	*Government/Public Sector/Private Sector -- Delineation Issues	Paper by WG II, Team 4	Graham Jenkinson
12:45 p.m.	Lunch		
2:15 p.m.	* Government transactions with public corporations	Paper by WG II, Team 1	Keith Dublin/E/Weisman
3:45 p.m.	Coffee break		
4:00 p.m.	Government transactions with public corporations (continued)		
5:00 p.m.	Summary of discussions		Jean-Pierre Dupuis
<i>Thursday, September 23</i>			
9:00 a.m.	Coffee		
9:15 a.m.	* Tax revenue, uncollectible taxes, and tax credits	Paper by WG II, Team 3	Johann Bjorgvinsson and J-P Dupuis
10:45 a.m.	Coffee break		
11:00 a.m.	Provisions, contingent assets, constructive obligations, including state guarantees	Paper by WG II, Team 5	Raimund Mink
12:30 p.m.	Lunch		
2:00 p.m.	Privatizations and restructuring agencies, including securitization	Paper by WG II, Team 2	Jean-Pierre Dupuis and Denis Besnard
3:45 p.m.	Coffee break		
4:00 p.m.	Other issues (employer pension schemes, public sector debt, etc.)	Short papers (OECD, IMF)	
4:45 p.m.	Summary of discussions		Jean-Pierre Dupuis
5:30 p.m.	Update of Strategy Paper	Strategy Paper	Lucie Laliberté

* The three asterisked papers will be the ones presented to the Advisory Expert Group for the SNA review in November 2004. Participants should therefore be aware that these items are "for decision."

Working Group I (WG I) September 24, 2004

Note: Due to time constraints for WG II on the previous days, it might be necessary to start the WG I meeting at 11:00 on Friday.

Note: As part of this meeting we will discuss the ongoing role of WG I, arrangements for its leadership and relationship with other groups, including the IASB and PSC.

Date and time	Topic	Documents	Discussion Leader
<i>Friday, September 24</i>			
9:15 a.m.	Coffee		
9:30 a.m.	Opening remarks		Lucie Laliberté
9:45 a.m.	PSC Update and GGS Project Brief		Paul Sutcliffe
10:45 a.m.	Coffee Break		
11:00 a.m.	PSC Update and GGS Project Brief		Paul Sutcliffe
11:30 a.m.	WG I	WG I Report ¹ and Matrix I	Paul Sutcliffe
1:00 p.m.	Lunch		
2:00 p.m.	WG I (continued)		
4:00 p.m.	Coffee break		
4:15 p.m.	Work Program for 2004 and 2005		Lucie Laliberté

TASK FORCE ON HARMONIZATION OF PUBLIC SECTOR ACCOUNTING MANDATE

<http://www.imf.org/external/np/sta/tfhpsa/2003/100303.pdf>

The objective of the TFHPSA is to study the feasibility of harmonization between the different international government accounting and statistical standards. These include the 1993 System of National Accounts (SNA), the 1995 European System of Accounts (ESA), the Government Finance Statistics Manual (GFSM 2001), the International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS), and the International Public Sector Accounting Standards (IPSAS). IPSAS are based on IAS / IFRS and future references will be made to IPSAS only, except in cases where there is any divergence between them.

Specifically, the TFHPA is mandated:

- To identify differences that exist between the various standards in the treatment of specific transactions, assets and liabilities.
- To identify areas where harmonization between the various standards is considered feasible and desirable, and to take action to affect the necessary amendments.
- To identify areas where harmonization between the various standards is not considered feasible or desirable, and to assess the implications of remaining differences between the standards.
- To make recommendations to the Inter-Secretariat Working Group on National Accounts (ISWGNA), for amending the SNA.

The TFHPSA consists of a Steering Group, the Task Force itself, and two Working Groups.

The Steering Group of the Task Force consists of representatives of the relevant international organizations and associations engaged in this work and individual countries that have demonstrated major efforts in this field. At present the Steering group is composed of:

- The IMF, the OECD, the International Federation of Accountants-Public Sector Committee (IFAC-PSC), Eurostat, the European Central Bank (ECB), and the International Accounting Standards Board (IASB)
- Australia and the United Kingdom. Additional countries may join the Steering Group in accordance with the above criteria.

The Task Force itself consists of senior statisticians and senior accounting policy officials from all interested countries, as well as representatives of international organizations.

Working Group I of the Task Force will focus on harmonization issues between GFSM 2001 and IPSAS, including ESA/SNA when relevant. (Issues identified as relevant to the other Working Group or other fora will be referred to the Task Force for further action as required).

Working Group II of the Task Force will focus on harmonization issues between GFSM 2001 and SNA/ESA, including IPSAS when relevant. (Issues identified as relevant to the other Working Group or other fora will be referred to the Task Force for further action as required).

The TFHPSA is chaired by the IMF. Working Group I of the Task Force is chaired by IFAC-PSC. Working Group II is chaired by the OECD. The OECD provides the Secretariat for the Task Force and its component groups.

Meetings of the Task Force and the Working Groups will take place in conjunction with relevant OECD meetings of senior accounting policy and statistics officials in order to minimize travel burden.

October 6, 2004

DRAFT MINUTES TFHPSA

(Please note these are still subject to review by participants and final confirmation)
TFHPSA meeting in Washington DC (22-23-24 September 2004)

MAIN ISSUES AND SUMMARY OF CONCLUSIONS

This was the second meeting of the Task Force on Harmonization of Public Sector Accounting. The two first days were dedicated to discussing issues of Working Group II (harmonisation of public sector statistical guidelines in the context of the SNA review), and the last day to discussing issues of Working Group I (convergence between public accounts and statistical guidelines). The meeting, which was hosted by the IMF in Washington during September 22-24, 2004, was attended by 40 statisticians and accountants whose representation was as follows:

- Countries: Australia, Argentina, Bulgaria, Brazil, Canada, Korea, Denmark, Germany, Hungary, Japan, Norway, New Zealand, Sweden, United Kingdom, United States.
- International organisations: IMF, OECD, IFAC-PSC, United Nations, World Bank, European Central Bank, Eurostat.

I. Introductory statements

- Carol Carson (IMF) focused on two major developments in recent years: the increasing volume of discussions about the relationship between the accounting standards and corporate governance for the public sector, and the growth of statistical guidelines developed in the context of the revision of the 1993 SNA. The convergence of these two issues sets the challenge for the task force: harmonization of the two dataset guidelines (in a context where revision of accounting norms are discussed at a worldwide level), and consistency of macroeconomic guidance (in the context of the SNA review).

- Rob Edwards (Director of the Statistics Department, IMF) welcomed the task force participants and underlined the importance with which he regarded the work of the TFHPSA that stemmed from his past experience as responsible for economic statistics in Australia. Of special interest to the Task Force is the Australian's focus on the public sector in both statistics and public accounts, and the harmonization of the two datasets. Mr. Edwards reiterated that the taskforce could usefully focus on harmonized standards not only for ex-post recording of events, but also for recording forward looking estimates.

- Lucie Laliberté (Senior Advisor, Statistics Department, IMF; Chairperson of the TFHPSA) stressed the core mandate of: seeking harmonization within and between economic datasets for the public sector. The Task Force is the first initiative at the international level where statisticians and accountants focus on harmonizing their respective data standards. She noted the three main areas on which the work of harmonization is focused: reporting units, economic event (recognition and measurement), and the reporting system. In this context, she emphasised the usefulness of the matrix elaborated by the Working Group I in providing proposals where harmonization can be worked on. With regard to WG II, she introduced the five priority issues that had been identified on the basis of their relevance for policy makers and in taking into account the work of other groups also involved in the update of the 1993 SNA.

II. Issues of Working Group II

Five priority issues were discussed, based on papers prepared as a result of the discussions held in the five working teams (see the summary of conclusions of the February 11, 2004 Paris meeting).

1. Government / public sector / private sector delineation

The main issue is to clarify the SNA criteria for classifying the units by developing both:

- the definition of control, relevant for the delineation of the public sector,
- the notion of "economically significant prices", relevant for the determination of market / non-market activities.

The paper presented at the meeting took into consideration inputs from the ESA95 manual on government deficit and debt, GFSM2001 and the IPSAS (from IFAC-PSC). These were developed subsequently to the 1993 SNA and deal more closely with the practical difficulties in classifying borderline cases.

Several recommendations were made to improve the paper:

- Control ("the capacity to govern the policy objectives of a unit") in a public sector context is not necessarily based on equity ownership. This is to be contrasted with the private sector where control generally presupposes equity ownership interests. It was further recommended that the SNA clarify the status of autonomous pension schemes of public sector employees
- The IPSAS wording "capacity to receive benefits" is not retained, due to difficulties with the notion of benefits. While both IPSAS and the SNA refer to "benefits", the term does not have the same meaning in the two systems. The IPSAS notion of benefits (which includes both financial and other policy objective benefits) as being associated with control would need to be clarified. It was proposed that the differences and similarities between the statistical and accounting use of the words "benefit", "govern" and "power" be investigated to help clarify the use of these words.
- Clarification is needed with the cases of public-private joint-ventures, special purpose vehicles (SPVs), corporations jointly controlled by several public corporations or by several governments (under which conditions are resident units controlled by a non-resident government classified as part of the public sector?). It was pointed out that the accounting treatment allows for proportional recording of transactions and that the requirement of separate financial statements allows for the statistical treatment of resident/non-resident delineation.
- Case of Non Profit Institutions (NPIs), to be classified in the government sector: the present SNA rule (a NPI "controlled and mainly financed" to be in government) was questioned as too restrictive. A preferred option/condition would be to classify in government a NPI *controlled* by the government. If it is *mainly financed* by it, this would be a strong indicator of control. Other indicators of control should be listed to further clarify different notions of control.
- Make more use of the notion of "ancillary units" in allocating units between government and public corporations.
- "Economically significant prices" (ESP): there was no majority in the meeting that supported adopting the threshold defined by the general rule in the ESA95 (sales covering more than 50% of the production costs). It was noted that the ESP concept refers to classification of the individual receipts of the units; whereas the ESA95 50 % test determines whether a unit is market or non-market (not whether the individual receipts are economically significant).

The paper as well as the discussion led to major progress in identifying the various aspects that need be taken into account in defining control and ESP. At the same time, it was recognized that a good deal of work remained to be done to integrate and synthesize these points into a common framework that would provide more guidance to statisticians.

2. Accrual of earnings on equity in public corporations

At issue is the adequacy of the 1993 SNA in reflecting the government controlling interests in public corporations, notably how the income from such interest should be recognized in government statistics. The lack of detailed guidance on transactions between the government and public corporations leaves the door open to many different possibilities for recording capital injections, super dividends, debt assumptions, lump sum payments, etc. This may lead to an asymmetric treatment, and possible manipulation of the

recording of government transactions and balances. Three recommendations were submitted to the task force by the working team leader:

- Recommendation 0: to bring only minor changes to the letter of the SNA by dropping the reference to “transfers” concerning certain public corporations’ transactions with governments. This would effectively entail “accruing” instead of “cash” recording earnings/losses of quasi-corporations, persistent losses of government trading corporations, and profits of fiscal monopolies.

- Recommendation 1: to take on board the developments in the ESA95 manual on government deficit and debt and in the GFSM2001, which clarify the SNA and help to implement it, but do not imply conceptual changes.

- Recommendation 2: to apply the statistical treatment provided for foreign direct investment: profits and losses of the public corporation would be accrued in the government accounts as (non-financial) income transactions, only the reinvested earnings (D.43) being retained by the corporation. All other flows therefore in connection with the government’s ownership and control of the corporation (capital injections, super dividends, debt assumptions...) would be recorded as financial transactions, being net worth neutral. This method was credited of leading to a better delineation between income and revaluation. It should be noted that this treatment would not change the recording of flows of payments of a different nature (subsidies, investment grants...).

There was support in the meeting on the usefulness of the reinvested earnings approach (recommendation 2) in providing an operational framework to assess transactions between government and public corporations. At the same time, difficulties about the implications were noted, as expressed notably by the German delegate who indicated that the statistical treatments adopted should neither lead to major changes to GDP – GNI or to government deficit, nor be made too complicated or too difficult to implement. One difficulty resides in the very different interpretation of government activities (recognition of revenues/expenses for which there are no cash proceeds) that the new treatment would entail. Operationally, should it applied to all public corporations or a subset? What is the conceptual basis to distinguish flows recording according to the nature of the relationship between entities: flows to/from controlling owners only, or to all investment portfolios? Could this lead to opening the notion of income in the accounts?

It was recognized that more work was required to shed further light on what the options would entail. This becomes especially relevant with the development of discussions in the new Eurostat task force (update of ESA95). It was agreed that the Questionnaire on accruals of earnings on equity in the SNA will be reviewed and updated with the information obtained during the discussion of the issue. The questionnaire will be re-circulated to members of the taskforce to inform further work on this topic.

3. Tax revenue, accrual recording and tax credits

Three issues were examined, including written proposals for the updated SNA by the working team leader:

- Definition of tax revenue: the proposal made for the core definition includes only a minor change in the SNA (“nothing directly in exchange” for the tax). However, the meeting considered it necessary to elaborate on the definition of taxes by developing a number of criteria (conditions, tax gap...); and to discuss further the borderline with the purchase of a service, with fees, leases and with sale of assets, taking into consideration various inputs (GFSM 2001 and ESA95 manual on government deficit and debt). It was noted that members of the meeting were concerned about disparity in the application of the definitions in practice. Although it was acknowledged that some flexibility is needed, the need for consistency and comparability necessitates further clarification.

- Implementation of the accrual principle: the important role of statistics in explaining underlying economic events was cited as an important reason for seeking the correct treatment of accrued taxes. It was emphasised that the approach in both public accounts (IPSAS) and national accounts was converging,

which is encouraging for accurate statistical recordings. However, the proposal for flexibility in the *time* of recording the tax on income in certain circumstances was asked to be somewhat tightened. The notion / quantification of accrued *amounts* of tax revenue is still controversial. The option of adjusting the due amounts (assessments) by a capital transfer – though questioned by some statisticians - was asked to be kept by Denmark. On the other hand, someone (Eurostat) stated that accrual recording of taxes was solely a matter of time of recording, and that the amounts to be recorded should only be the cashed amounts.

- Tax credits (nothing in SNA93): At issue is that tax credits are not referred to in the SNA, and the proposal is to introduce them. Improving on the wording generally used to distinguish among tax credits would help; for instance, the UK proposal that “payable tax credits” is preferable to “non-wastable tax credits”. A clear distinction between the gross / net treatment of taxes were called for. A number of practical difficulties need to be addressed. A clear line would need to be drawn between different types of tax credits or allowances, especially as tax systems have traditionally been designed to take account of social concerns but to do so in different ways. Another difficulty is defining the cases where tax credits are so detached from the tax system (even when paid to households who are taxpayers) that they are to be considered in substance as (social) expenditure. The discussion called to introduce tax credits by taking into account new cases issued by countries.

4. Contingent liabilities: the government guarantees

In relation with what happens in an increasing number of countries (flows recorded in the budget and/or in the public accounts of Sweden, USA, UK...), and with IPSAS recommendation (IPSAS19), there is a growing consensus among statisticians that guarantees given by government should be reflected in the government transactions and balance sheet accounts, at least under certain conditions. One proposal would consist in reflecting the expected cost of the guarantee (the statistical estimate of the expected value of payments under the guarantee, considering the probability of each possible amount). There could be two ways to do this in an updated SNA:

- Define new financial (and non-financial?) transactions for provisions and apply the IPSAS19 method. There was debate about whether all guarantees should be included or only those with over 50% chance of call (as in IPSAS19). It was suggested that this problem could be overcome by grouping all guarantees for the purpose of calculating the expected cost.

- As an alternative treatment, treat the issuing of a guarantee like non-life insurance. The output would be defined as premiums minus expected cost. The financial liability would be insurance technical reserves (F.6).

Controversial issue raised was the appropriate recording of the counterpart asset to the government liability - the lender or the borrower? Similarly, the treatment of moral guarantees and “too big to fail” entities were raised as controversial issues to be dealt with. It was agreed, that, to embrace the various cases observed in practice, a typology of guarantees should be set up in order to help defining the relevant treatments. ECB agreed to update the draft paper on guarantees.

Additional issue: the case of Export credit insurance agencies was presented to the meeting and the question was whether these agencies should be referred to explicitly in the SNA. These activities can be associated to several of other activities that are being considered in the SNA update: non-life insurance, government guarantees, non-performing loans, debt rescheduling, derivatives. The importance of making a clear distinction between the guideline (standard) as contained in the SNA and compilation practice were stated. To the extent that institutional arrangements vary across countries, the meeting agreed that an associated compilation guide should include guidance on the recording of these entities and their transactions, in order to achieve the best internationally consistent treatment. The usefulness of a numeric example of GFS and SNA links were emphasized as of more value than highlighting one specific institutional unit.

5. Restructuring agencies and SPVs

The scope of the working team covers privatization, restructuring agencies, securitization and special purpose vehicles. On the latter subject, the ECB submitted a paper that comprised four proposals:

- Proposal 1: do the SPV meet the criteria for being an institutional unit or only an ancillary unit? If institutional unit, it should be classified as Other financial institutions (S.123).
- Proposal 2: case of securitisation via a SPV. Two key-conditions need to be considered:
 - . assets must pre-exist in the general government balance sheet
 - . the SPV takes over the full risk
- Proposal 3: sub-sector S.123 could be split in two: 1/ Investment funds 2/ Diverse financial corporations
- Proposal 4: Investment funds issuing monetary liabilities could be classified under sub-sector S.122 (Other monetary financial institution).

The paper provided a useful starting point to broach the broader topic. Canberra II group and the BOP Committee are working on this topic, and their findings would have to be reviewed in the context of the public sector.

III. Issues of Working Group I

Most of the work carried out by the WG I of the TFHPSA concerns the Public Sector Committee of IFAC. In that context, Paul Sutcliffe (PSC-IFAC) first provided an overview of the PSC before proceeding to the update of the WG I.

1. The Public Sector Committee, an overview

The PSC is a body of the International Federation of Accountants (IFAC) composed of 15 members, with international organisations (IMF, European Union) as observers. The PSC, which was established in 1996 with a broad mandate, effectively focused its activities on accounting standard setting in the public sector. Its mode of operation had been to adapt the IASB standards into a public sector context, and developed new standards in areas specific to the public sector (non-exchange transactions, social policy obligations, budget reporting). A recent external review that was conducted on the PSC activities called for the mandate to focus on being the standard setter in the public sector. The PSC will become soon the Public Sector Accounting Board. The results of the review combined with its limited resources, including funding constraints, led the PSC to reconsider its priorities.

The PSC meets three times a year. The PSC has three staff members, one in New York, two in Melbourne, and two consultants working on projects. The members provide their own time.

2. WG I update

Since the February 2004 TFHPSA meeting, the PSC had two meetings that covered, among other things, the work of WG I. It will report on the Task Force meeting to its next meeting, which is planned for 1-4 November 2004 in Dehli, India.

At the PSC March 2004 meeting, WG I transmitted the matrix, and made three recommendations: encourage disclosure of the general government sector, specifying rules for financial reporting; action a project on comprehensive income (that would reflect reporting of transactions and other flows); and as IPSAS develop, they should require for current values as opposed to the number of options currently allowed in the standards. The matrix was viewed as a document to make a clear statement for WG I to track project; in fact, the PSC has a project to issue it as a public document to as to benefit from the participation of a wider audience. The document will be updated regularly to reflect progress made. The recommendations were received taking into account their practical problems such as the difficulty of moving from historic cost valuation and the increasing convergence that the PSC seeks to reach with the IASB.

At the July 2004 meeting, the PSC agreed that its priorities would be:

- on public sector specific projects (Invitations to comment (ITC) on non exchange transactions, social policy obligations, budget reporting and development assistance);
- convergence with IASB standards; and
- convergence with statistics where appropriate.

On the latter point, the staff presented a draft Project Brief of General Government Sector. The objective of the Project is to develop an IPSAS that allows/encourages entities to disclose financial information in respect of the General Government Sector and to provide guidelines if entities choose to disclose General Government Sector accounts. The idea is for the IPSAS to be developed with input from a Project Advisory Panel (PAP). The process would involve the preparation and issuance for comment of an Exposure Draft that identifies the proposed requirements of an IPSAS, with comments fully considered by the PSC before finalizing the IPSAS. The response at the PSC meeting was mixed, with some members viewing positively the project, while other being less receptive. The PSC agreed to consult the members of WG I (who would also be invited to form the PAP).

Related to the Project, Paul Sutcliffe presented key issues that were discussed at the Task Force meeting. These covered the following:

- General government sector disclosure should be encouraged to allow for country specific circumstances. The meeting urged a clear distinction between the whole of government accounts as used in the IPSAS (statistical public sector) and the general government sector. Terminology used in the disclosure requirements could lead to misunderstanding of the meaning and should be clarified. It was noted that statisticians require general government data before consolidation with public corporations – with enough details available to do the subsequent consolidation.

- General government sector disclosure requirements were agreed to include national, provincial and local government accounts respectively. It was also agreed that these disclosure requirements should be that used by the government (accrual or cash) in its accounts.

- The prominence of general government sector reporting was discussed with specific reference to whether it should constitute a primary set of financial statements, an additional disclosure column, a note disclosure or to view sectors to the way segments are reported. Although each alternative reporting format could have merits, the meeting was warned not to overload the system to such an extent that it sinks the ship (for instance by specifying that segment reporting should use COFOG). Accounting records should be the basis for recording general government activity, and the importance of accurate and reliability in these records was emphasized.

A common reporting framework could provide all the details, (building blocks). The meeting agreed that the emphasis should be on the appropriate building blocks, which could allow consolidations and / or deconsolidation by statisticians. The meeting agreed that reconciliation between accounting records and statistical records should not be the responsibility of the accountants.

The meeting noted that the PSC is considering the distinction between transactions and other economic flows in the proposed presentation formats. Performance reporting requires other type of disclosure requirements than that of financial reporting. The important relationship between budget reporting and the links with financial reporting was also discussed.

V. Conclusion: the way forward

1. Working Group II

The potential impact on the update of the 1993 SNA varies across WG II issues: taxes on one hand, government/public/private sector delineation on the other hand should be only for clarification of the SNA

conceptual framework, whilst the three other issues may lead to conceptual changes (discussions taking thus a longer time).

The state of discussions on most issues leads to give more time than the initial plan did: only the paper on the recording of taxes (second section of the paper) would be sufficiently advanced in the beginning of October 2004 to be submitted for discussion and decision to the December 2004 AEG. The rest of the papers could be the subject of a progress report.

However, it was agreed that December 2004 should be kept as a milestone for all papers to be improved and updated, after circulating in the working teams, in order to achieve (close-to-decision) papers in February 2005.

The time table of meetings was changed accordingly:

- December 2004: AEG meeting
- February: TFHPSA meeting (in Paris, just prior the OECD Senior Budget Officials, accruals symposium)
- October 2005: TFHPSA meeting (in Washington DC)
- November 2005: AEG meeting
- February 2006: TFHPSA final meeting (in Paris)

While maintaining the organizational structure of 5 Working Teams, the membership and leadership composition is being reviewed to take into account, for instance, staff rotation and regional representation.

2. Working group I

- Paul Sutcliffe will present to the Delhi meeting the discussions of the Task Force, notably the response to the Project Brief, the matrix be issued as a public document. He will update the TFHPSA February, 2005 meeting.
- Organisational: a chairman has to be elected to replacement of Ian Mackintosh; the member list will be reviewed and updated; and discussions on the issues raised would continue electronically.

Working Team membership (draft)				
A Gvt/public/private	B Earnings from equity investment	C Tax and tax credit	D guarantees	E PPP, SPV and other
1. Ram (Australia) 2. Robinson (US) 3. Carruthers (UK) 4. Csonka (Hungary) 5. Jenkinson (UK) 6. Moore (Canada) 7. Paliova (Bulgaria) 8. Pitzer (Consultant) 9. Rodopoulos (BR) 10. Finnerty (Canada) 10. Warren (New Zealand) 11. Wass (Norway) 12. Laliberté (IMF)	1. De Rougemont Eurostat) 2. Robinson (US) 3. Golland (UK) 4. O'Hagan (Canada) 5. Ram (Australia) 6. Rivas (IMF) 7. Braakman (Germany) 8. T McCarron(NZ) 9. Laliberté (IMF)	1. Dupuis (OECD) 2. Bjorgvinsson (IMF) 3 Carruthers (UK) 4. Choi (Korea) 5. Csonka (Hungary) 6. Kilpatrick (USA) 7. Lundqvist (Sweden) 8. Moore (Canada) 9.Finnerty (Canada) 10. Pitzer (consultant) 11. Ram (Australia) 12. Brodersen (Denm) 13 Robinson (US) 14. Braakman (Germany) 15. Jenkinson (UK) 16. Paliova (Bulgaria) 17.T. McCarron (NZ) 18. Laliberté (IMF)	1. Sola/ Mink (ECB) 2. Golland (UK) 3. Kilpatrick (USA) 4. Leith (New Zealand) 5. O' Hagan (Canada) 6. Robinson (US) 7. De Rougemont (Eurostat) 8. Lundquist (Sweden) 9. Rivas (IMF) 10. Rodopoulos (BR) 11. Laliberté (IMF) .	1. Dublin/Weisman (IMF)) 2. Carruthers (UK) 3. De Rougemont (Eurostat) 4. Sola/ Mink (ECB) 5. O'Hagan (Canada) 6. Kester (IMF)) 7. De Clerk (IMF) 8. Rial (IMF) 9. Rodopoulos (BR) 10. Moore (Canada) 11. Robinson (US) 12. Pitzer(consultant)
Working Group I 1. Sutcliffe (IFAC) 2 Kaufmann (Australia) 3. Tanaka (Japan) 4. Tarallo (WB) 5. Carruthers (UK) 6. Ram (Australia) 7 Palladino (Argentina) 8. Jenkinson (UK) 9. Warren (New-Zealand)				

**TASK FORCE ON THE HARMONIZATION OF PUBLIC SECTOR ACCOUNTING (TFHPSA):
LIST OF PARTICIPANTS
Washington, D.C.
September 22–24, 2004**

COUNTRY (ADDRESS) OF ORGANIZATION/INDIVIDUALS	
<u>Argentina</u>	Ms. Carmen Ines GIACHINO DE PALLADINO Advisor PSC-IFAC 1284 Riglos Street Capital Federal, CP Buenos Aires 1424 Argentina Tel: 54 11 4922 8714 Fax: 54 11 4349 6559 E-mail: cpalladino@palladinogroup.com or Cpalladino@cponline.org.ar
<u>Australia</u>	Mr. Brett KAUFMANN Assistant Secretary Department of Finance and Administration John Gorton Building King Edward Terrace 2600 Canberra Australia Tel : +61 2 6215 3158 Fax: +61 2 6215 3268 E-mail: Brett.Kaufmann@finance.gov.au Mr. Tulsi RAM Assistant Director Australian Bureau of Statistics Locked Bag 10 Belconnen Canberra, ACT 2616 Australia Tel.: +61 2 6252 6117 Fax: +61 2 6252 5566 E-mail: t.ram@abs.gov.au
<u>Brazil</u>	Ms. Fabiana Magalhães Almeida RODOPOULOS Treasury Advisory Group Tel: +55 61 412-2298 E-mail: fabiana.rodopoulos@fazenda.gov.br

<u>Bulgaria</u>	Ms. Iana PALIOVA Director Treasury Directorate Ministry of Finance 102, Rakovski Street Sofia 1040 Bulgaria Tel.: 359 2 9859 2130 Fax.: 359 2 980 6863 E-mail: i.paliova@minfin.bg
<u>Canada</u>	Mr. Terry MOORE Statistics Canada Tel: 613-951-5195 Fax: 613-951-0061 E-mail: Terry.Moore@statcan.ca Mr. Patrick O'HAGAN Assistant Director Income and Expenditure Accounts Division 21 st Floor, R.H. Coats Building Tunney's Pasture Ottawa, Ontario Canada K1A 0T6 Tel: 613-951-1798 Fax: 613-951-3618 E-mail: Patrick.O'Hagan@statcan.ca
<u>Denmark</u>	Mr. Soeren BRODERSEN Head of Division Statistics Denmark Sejrøgade 11, DK-2100Ø København Denmark Tel: +45 3917 3051 Fax + 45 3917 3059 E-mail: SBR@dst.dk
<u>Germany</u>	Mr. Albert BRAAKMANN Head of Division Federal Statistical Office Gustav-Stresemann-Ring 11 Wiesbaden 65197 Germany Tel: +49-611-752 579 Fax: +49-611-753 952 E-mail: Albert.Braakmann@destatis.de

<u>Hungary</u>	Ms. Gizella CSONKA Deputy Head of Department Ministry of Finance József nádor tér 2-4 Budapest H-1051 Hungary Tel: +36 1 327 2374 Fax: +36 1 327 2374 E-mail: gizella.csonka@pm.gov.hu
<u>Japan</u>	Mr. Hideaki TANAKA Australia-Japan Research Centre The Australian National University Tel: +61 2 6125 0136 Fax: +61 2 6125 0767 E-mail: hideakitankamof@aol.com or hideaki.tanaka@anu.edu.au
<u>Korea</u>	Mr. Gyukwon CHOI Advisory Economist Bank of Korea 1100, 3-Ga Namdaemun-Ro Jung-Gu Seoul 100-794 Korea Tel: 82 2 759 4372 Fax 82 2 759 4387 E-mail: gkwnchoi@bok.or.kr
<u>New Zealand</u>	Mr. Steve LEITH Principal Advisor Fiscal Management & Reporting Budget & Macroeconomic Branch 1 The Terrace PO Box 3724 Wellington, New Zealand Tel: 64-4-471-5254 Fax: 64-4-499-0992 E-mail: steve.leith@treasury.govt.nz Mr. Ken WARREN Chief Accounting Advisor Fiscal Management & Reporting Budget & Macroeconomic Branch 1 The Terrace PO Box 3724 Wellington, New Zealand Tel: 64-4-471-5128 Fax: 64-4-499-0992 E-mail: ken.warren@treasury.govt.nz
<u>Norway</u>	Mr. Kurt WASS

	<p>Statistical Adviser Statistics Norway Kongens St. 6 Post Box 8131 Dep Oslo 0033 Norway Tel: +47 2109 4553/47 99 50 3620 Fax +47 2109 4734 E-mail: kurt.aga.wass@ssb.no or kur@ssb.no</p>
<u>Sweden</u>	<p>Ms. Kristina LUNDQVIST Head of Financial Statistics Unit Swedish National Financial Management Authority (ESV) P.O. Box 45316, Stockholm 10430 Sweden Tel: +46 8 690 4505 Fax: +46 8 690 4114 E-mail: kristina.lundqvist@esv.se</p>
<u>United Kingdom</u>	<p>Mr. Ian CARRUTHERS Head of Whole of Government Accounts Programme HM Treasury 1 Horse Guards Road London SW1A 2HQ United Kingdom Tel: +44 207270 4502 Fax: +44 207270 4545 E-mail: ian.carruthers@hm-treasury.gov.uk</p> <p>Mr. Graham JENKINSON Director National Expenditure and Income Division Office for National Statistics 1 Drummond Gate London SW1V 2QQ United Kingdom Tel: +44 20 7533 5994 Fax: +44 20 7533 6022 E-mail: Graham.jenkinson@ons.gov.uk</p> <p>Mr. Jeff GOLLAND Statistician H.M. Treasury 1 Horse Guards Road London SW1A 2HQ United Kingdom Tel: 44 20 7270 4458 Fax: 44 207451 7563 E-mail: Jeff.Golland@hm-treasury.gov.uk</p>

<p><u>United States of America</u></p>	<p>Mr. Brooks ROBINSON Chief, Government Division Bureau of Economic Analysis U.S. Department of Commerce 1441 L Street, N.W. BE-57 Washington, DC 20230, U.S.A. Tel:: (202) 606-9778 Fax: (202) 606-5320 E-mail: brooks.robinson@bea.gov</p> <p>Mr. Ben COWAN Economist, Bureau of Economic Analysis U.S. Department of Commerce 1441 L Street, N.W. BE-57 Washington, DC 20230, U.S.A. Tel:: (202) 606-9693 Fax: (202) 606-5320 E-mail: Benjamin.Cowan@bea.gov</p> <p>Mr. Timothy DOBBS Economist, Bureau of Economic Analysis U.S. Department of Commerce 1441 L Street, N.W. BE-57 Washington, DC 20230, U.S.A. Tel:: (202) 606-9776 Fax: (202) 606-5320 E-mail: Tim.Dobbs@bea.gov</p> <p>Mr. Benyam TSEHAYE Economist, State and Local Government Branch Bureau of Economic Analysis U.S. Department of Commerce 1441 L Street, N.W. BE-57 Washington, DC 20230, U.S.A. Tel:: (202) 606-9791 Fax: (202) 606-5349 E-mail: benyam.tsehay@bea.gov</p> <p>Mr. Steven PAYSON Chief, Special Studies Branch Government Division Directorate for National Economic Accounts Bureau of Economic Analysis U.S. Department of Commerce 1441 L Street, N.W. BE-57 Washington, DC 20230, U.S.A. Tel:: (202) 606-9788 Fax: (202) 606-5349 E-mail: steven.payson@bea.gov</p>
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<u>United States of America</u>	<p>Mr. Robert KILPATRICK Fiscal Economist US Office of Management and Budget 725 17th Street, NW Washington D.C. 20503 United States of America Tel: +202 395 3667 Fax: +202 395 7230 E-mail: robert.kilpatrick@omb.eop.gov</p> <p>Mr. John PITZER Consultant Tel: (703) 847-2642 Fax: (703) 847-6414 E-mail: jpitzer1610@msn.com</p> <p>Mr. Kevin O'CONNOR Consultant Tel: 301-596-9854 E-mail: kwoconnor@yahoo.com</p>
<u>Eurostat</u>	<p>Mr. Philippe de ROUGEMONT Economist EUROSTAT Bureau E3 805 Batiment BECH Luxembourg L-2721 Luxembourg Tel: 00-352-4301-37065 Fax: 00-352-4301-32929 E-mail: philippe.de-rougemont@cec.eu.int</p>
<u>European Central Bank</u>	<p>Mr. Pierre SOLA Statistics Development and Coordination Division Directorate General Statistics European Central bank Postfach 16 03 189 Frankfurt am Main D-60066 Germany Tel: + 49 69 1344 7993 Fax: + 4969 1344 7693 E-mail: pierre.sola@ecb.int</p>
<u>IFAC</u>	<p>Mr. Paul SUTCLIFFE Technical Director Public Sector Committee International Federation of Accountants 1302/530 Little Collins Street Melbourne Vic 3000 Australia Tel: +61 3 99 09 76 77 Fax: +61 3 99 09 76 69 E-mail: Psutcliffe@ifac.org</p>

<u>OECD</u>	<p>Mr. Christopher HEADY Head of the Tax Policy, Tax Statistics and Horizontal Programmes Division OECD 2, rue André Pascal 75016 Paris France Tel: 00 33 1 45 24 93 22 Fax: 00 33 1 44 30 63 51 Email: christopher.heady@oecd.org</p> <p>Mr. Jean-Pierre DUPUIS Principal Administrator OECD 2, rue André Pascal, Paris 75775, France Tel: + 33 1 4524 8101 Fax: 33 1 4524 9814 E-mail: Jean-Pierre.DUPUIS@oecd.org</p>
<u>UN</u>	<p>Mr. Ivo C. HAVINGA Chief, Economic Statistics Branch United Nations Statistics Division (UNSD) 2 UN Plaza, Office 1520 New York, NY 10017 Tel: +1 212 963 4859 Fax + 1 212 963 1374 E-mail: havinga@un.org</p>
<u>World Bank</u>	<p>Mr. Roberto TARALLO The World Bank 1818 H Street Washington, D.C. DC 20433 United States of America Tel: +1 202 473 2413 Fax: +1 202 522 2110 E-mail: rtarallo@worldbank.org</p>

International Monetary Fund (IMF)	<p>Mr. Robert W. EDWARDS Statistics Department International Monetary Fund (IMF) 700 19th Street, NW Washington, D.C. 20431 United States of America Tel: +1 202 623 8640 Fax: + 1 202 623 6460 E-mail: redwards@imf.org</p> <p>Mrs. Carol S. CARSON Statistics Department International Monetary Fund (IMF) 700 19th Street, NW Washington, D.C. 20431 United States of America Tel: +1 202 623 7900 Fax: + 1 202 623 6460 E-mail: ccarson@imf.org</p> <p>Ms. Lucie LALIBERTÉ Statistics Department International Monetary Fund (IMF) 700 19th Street, NW Washington, D.C. 20431 United States of America Tel: +1 202 623 7982 Fax: + 1 202 623 6460 E-mail: llaliberte@imf.org</p> <p>Mr. Jack DIAMOND Fiscal Affairs Department International Monetary Fund (IMF) 700 19th Street, N.W. Washington, D.C. 20431 United States of America Tel: + 202 623 8776 Fax: + 202 623 6073 E-mail: jdiamond@imf.org</p> <p>Mr. Keith DUBLIN Statistics Department International Monetary Fund (IMF) 700 19th Street, N.W. Washington, D.C. 20431, United States of America Tel: + 202 623 7993 Fax: + 202 623 6012 E-mail: KDublin@imf.org</p> <p>Mr. Rifaat BASANTI</p>
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Statistics Department
 International Monetary Fund (IMF)
 700 19th Street, N.W.
 Washington, D.C. 20431
 United States of America
 Tel: + 202 623 8719
 Fax: + 202 623 6012
 E-mail: RBasanti@imf.org

Mr. Ethan WEISMAN
 Statistics Department
 International Monetary Fund (IMF)
 700 19th Street, N.W.
 Washington, D.C. 20431
 United States of America
 Tel: + 202 623 4625
 Fax: + 202 623 6012
 E-mail: EWEISMAN1@imf.org

Mr. Johann BJORGVINSSON
 Statistics Department
 International Monetary Fund (IMF)
 700 19th Street, N.W.
 Washington, D.C. 20431
 United States of America
 Tel: + 202 623 8719
 Fax: + 202 623 6012
 E-mail: Jbjorgvinsson@im.org

Ms. Anne KESTER
 Fiscal Affairs Department
 International Monetary Fund (IMF)
 700 19th Street, NW
 WASHINGTON, D.C. 20431
 United States of America
 Tel: + 202 623 6135
 Fax: + 202 589 6135
 E-mail: akester@imf.org

Ms. Sagé DE CLERCK
 Statistics Department
 International Monetary Fund (IMF)
 700 19th Street, N.W.
 Washington, D.C. 20431, United States of America
 Tel: + 202 623 7909
 Fax: + 202 623 6012
 E-mail: sdeclerck@imf.org

Ms. Isabel RIAL
 Statistics Department

	<p>International Monetary Fund (IMF) 700 19th Street, N.W. Washington, D.C. 20431 United States of America Tel: + 202 623 4875 Fax: + 202 623 6012 E-mail: irial@imf.org</p> <p>Ms. Lisbeth RIVAS Statistics Department International Monetary Fund (IMF) 700 19th Street, N.W. Washington, D.C. 20431 United States of America Tel: + 202 623 7921 Fax: + 202 623 6028 E-mail: lrivas@imf.org</p>
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INTERNATIONAL FEDERATION OF ACCOUNTANTS
PUBLIC SECTOR COMMITTEE
PROJECT BRIEF

Disclosure of Financial Information Related to the General Government Sector

Updated following PSC Meeting (July 2004) and TFHPSA Meeting (September 2004)

Background

The Government Finance Statistics Manual 2001 (GFSM 2001), the European System of Accounts 1995 (ESA 95), the ESA95 Manual on Government Deficit and Debt (EMGDD) and the System of National Accounts 1993 (SNA 93) require governments to publish comprehensive information about the “General Government Sector” (GGS). GFSM 2001, ESA 95, EMGDD and SNA 93 define the GGS as “The group of units consisting of all resident government units and all resident non-market nonprofit institutions that are controlled and mainly financed by resident government units”.¹

The GGS typically includes entities such as government departments, law courts, public educational institutions, public health care units and other government agencies. The financing of these entities is sourced primarily from the government’s taxes, similar revenue and borrowings, rather than from the sale of goods or services. The definition of GGS only includes resident government units – however, “foreign” GGS operations are generally considered domestic operations located within national enclaves in a foreign country. The GGS does not include consolidation of “public non-financial corporations” (PNFCs) such as government business enterprises that trade in goods and services and “public financial corporations” (PFCs) such as central banks. Where financial statements are presented for the PNFC and PFC sectors under statistical financial reporting models, they exclude any foreign operations of those sectors. Information about those foreign operations is presented elsewhere in the national accounts.

Current International Public Sector Accounting Standards (IPSASs) do not require entities to disclose information about the GGS in their general purpose financial statements. IPSASs require entities to prepare general purpose financial statements that include information about all the resources controlled by the reporting entity. IPSAS 18 *Segment Reporting* also requires entities to identify segments and present information about those segments.

Working Group I (WG1) of the Task Force on Harmonization of Public Sector Accounting (TFHPSA) recommended that the PSC consider explicitly allowing/encouraging the disclosure of financial information about the GGS, as defined in GFSM 2001, in whole of government general purpose financial statements. WG1 also recommend that the PSC specify rules to be followed by a government electing to disclose GGS information in its general purpose financial statements. WG1 stated that the presentation of GGS financial information is important as a means of facilitating the convergence of international public sector accounting. The PSC agreed to action the project as proposed by WG1.

¹ See for example GFSM 2001 *Glossary*.

Project Objective

The objective of this project is to develop an IPSAS that allows/encourages entities to make additional disclosures of financial information regarding the GGS in general purpose financial statements. The IPSAS will be applied by entities adopting the accrual basis of accounting and electing to disclose GGS information in their general purpose financial statements.

After completion of the IPSAS, the PSC will then consider whether to amend the Cash Basis IPSAS to allow/encourage entities to make additional disclosures about the GGS in general purpose financial statements of entities applying the Cash Basis IPSAS *Financial Reporting Under the Cash Basis of Accounting*.

IPSASs deal with general purpose financial statements. The term “financial statements” is defined to encompass all statements and explanatory material which are identified as being part of the financial statements (see Preface to IPSASs para 8). IPSAS 1 *Presentation of Financial Statements* (para 19) identifies a complete set of financial statements (under the accrual basis) as a statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statement and accounting policies and notes to the financial statements.

Operating Procedures

The PSC follows a formal due process for the development of IPSASs. That process involves the preparation and issuance for comment of an Exposure Draft that identifies the proposed requirements of an IPSAS. The PSC then fully considers any comments received in the process of finalizing the IPSAS.

It is proposed that this IPSAS be developed by the PSC at Committee level, with input from a Project Advisory Panel (PAP). The role of the PAP will be to provide input to the PSC and PSC staff on key issues to be dealt with by the IPSAS, and to operate as a sounding board to the PSC and staff in the exposure draft development process. Communications among the PAP members and PSC staff will be by electronic means.

The PSC agreed that the members of WG1 be invited to form the PAP. WG1 developed the matrix comparing IPSASs, GFSM 2001 and ESA95/EMGDD/SNA which is to be issued by the PSC as a Research Report or Occasional Paper.

Project Timetable

- 2004 Action project, agree Project Brief, form Project Advisory Panel
- 2005 Develop and finalize Exposure Draft (issue ED in late 2005 or early 2006)
- 2006 Issue ED early 2006 if not issued after final PSC meeting in 2005. Review responses to ED and commence preparation of IPSAS
- 2007 Develop, Finalize and Issue IPSAS

Key Issues and Staff Recommendations

1. Should the IPSAS apply to all entities or only to those presenting whole-of-government general purpose financial statements?

WG1 recommended that the IPSASs allow/encourage the disclosure of GGS information in whole-of-government general purpose financial statements. IPSASs generally apply to all public sector entities. However, it is only possible to get a full representation of the GGS for a government at the whole-of-government level.

Staff Recommendation – July 2004

Staff recommend that the IPSAS should only be available for application by whole-of-government reporting entities which prepare general purpose financial statements under the accrual basis of accounting as prescribed by IPSASs. These reporting entities would include national, state/provincial or local governments. This is because GGS information may be useful for statistical purposes at those levels, but is unlikely to be useful at the individual entity level.

PSC Discussion – July 2004

The PSC was generally supportive of this proposal. PSC members also noted that the PAP should be requested to provide input on whether there should be separate disclosure for each level of government included in the Whole of Government Financial Statements. That is, if a national government controls, and therefore consolidates, provincial or local government should disclosures about the GGS at each level of government be required.

The PSC also sought advice from the PAP on whether entities applying the cash basis of accounting in accordance with the Cash Basis IPSAS should also be encouraged to disclose cash basis GGS information.

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

1. The PAP agreed that the ED/IPSAS should apply only at the whole of government level.
2. The PAP was of the view that if general purpose financial statements consolidates different levels of government (as may occur when for example, a national government controls local government) the information about the GGS at each level of government should be disclosed. Some members were of the view this was necessary to enable statistical data to be compiled from the records. However, other members noted that while it was useful, the disclosure of the GGS of the IPSAS reporting entity was the key, and expressed concern about the degree of complexity involved in disclosing information about the different levels of government in GPFs. A number of members noted that national governments or other levels of government would not “control” lower levels of government in their jurisdiction. Consequently, such consolidated statements would not be prepared.
3. The PAP was of the view that the ED/IPSAS should also apply if the cash basis of financial reporting was adopted. However, the TFHPSA was not unanimous on this issue.

Some members were of the view that this requirement may be too onerous for the cash basis reporters and the ED/IPSAS should focus on accrual. They noted that government finance statistics adopted the accrual basis for financial reporting and this should be the primary focus of ongoing convergence activities between IPSASs and statistical bases. There was also a sense from some participants that it would unnecessarily complicate the ED. Those that supported the application of the ED/IPSAS to the cash basis noted that many/most jurisdictions provide government finance statistics on a cash basis and as such GGS disclosures under the cash basis was appropriate and useful.

(For each PAP view see also the additional responses attached as Agenda item 4)

Staff View – October 2004 following PAP discussion

Staff agree with PAP views on 1 and 2 as the basis for preparation of a first draft ED. Staff are of the view that an ED applying the proposed GGS disclosures to both the accrual and the cash basis should not be actioned at this time. Rather, the ED on GGS disclosures under the accrual basis should initially be developed. Subsequently, as the accrual basis ED is taking shape, its applicability to the cash basis ED should be revisited.

This approach reflects the primary focus of the WG1 recommendation, which was developed in the context of the accrual basis; and reflects the recommendations of the PSC Review Committee that the relevance for the cash basis of additional disclosures in accrual IPSASs should be periodically assessed. It also provides a process for staff and the PSC to get a feel for unanticipated issues and consequences that might emerge as the project develops.

2. Should the disclosure of GGS information and information about other sectors be mandatory?

WG1 recommended that disclosure of GGS information be allowed or encouraged. The PSC agreed with this recommendation. The benefit of the disclosure of GGS information is that it would allow the link between IPSAS information and information generated from statistical models of financial reporting to be established in jurisdictions where GGS data is widely published. Disclosure would also enable GGS stand-alone data to be extracted from general purpose financial statements. The compilation and presentation of GGS data of sufficient quality to satisfy general purpose financial statement (GPFS) and related audit requirements will add to the workload of preparers and the complexity of the GPFS.

WG1 also recommended that IPSASs acknowledge that the Public Finance Corporation (PFC) and Public Non Finance Corporation (PNFC) sectors could be disclosed in a manner similar to the GGS information.

Staff Recommendation – July 2004

In some jurisdictions, users may not demand the disclosure of GGS information, and it seems unnecessary to make disclosure of GGS information mandatory in such circumstances. As such, staff recommend that the IPSAS be developed on the basis that disclosure of GGS information is encouraged, not mandatory, and that the IPSAS note that information may also be presented about the PFC and PNFC sectors using the same rules as for the GGS. However, consistent with the recommendation of WG1, when disclosures about GGS are made in GPFSs, these disclosures should be made in accordance with the requirement prescribed in the IPSAS.

PSC Discussion- July 2004

The PSC was supportive of this recommendation, and requested the PAP to confirm, or otherwise, that this approach reflects the intentions of WG1.

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

The PAP agreed with the staff view above that disclosure of information about the GGS should be encouraged and that when such disclosure is made, the disclosure should be consistent with requirements specified by the ED/IPSAS.

Some members expressed an initial preference for making such disclosures mandatory. However, on reflection they noted that moving to a mandatory disclosure may be too onerous and may unnecessarily complicate the GPFS prepared in accordance with IPSASs. This was a theme that arose in a number of issues – acknowledgement that progress was positive and that it was important not to overcomplicate the GPFS prepared in accordance with IPSASs by the inclusion of unnecessary requirements, or requirements that were not consistent with the objectives of GPFSs.

Staff View – October 2004 following PAP discussion

Staff agree with the PAP view.

3. What prominence should be given to GGS disclosures in the general purpose financial statements?

WG1 recommended that the PSC consider the prominence that should be given to GGS disclosures in the general purpose financial statements.

The choices that are available appear to be to identify GGS disclosures as a primary financial statement(s), to include GGS disclosures as an additional column in the primary financial statements as specified by IPSASs or to include GGS disclosures as a note to the general purpose financial statements.

IPSAS 1 *Presentation of Financial Statements* identifies the primary financial statements as:

- The Statement of Financial Position;
- The Statement of Financial Performance;
- The Statement of Changes in Net Assets/Equity; and
- Cash Flow Statement.

IPSAS 1 (and other IPSASs) also identifies disclosures to be made by way of notes to the GPFSs.

Staff Recommendation – July 2004

Staff recommend that the disclosure of GGS information be as a note to the financial statements, particularly as the disclosure will not be mandatory. Staff are concerned that including GGS information as additional primary financial statements will undermine the clarity and prominence of the financial statements identified in IPSAS 1. Staff are also concerned that inclusion of additional GGS columns in the IPSAS 1 prescribed financial statements will complicate and confuse the messages communicated by the primary financial statements.

PSC Discussion – July 2004

The PSC requested PAP input on the appropriate manner of disclosure before providing direction to staff. Some members clearly favoured note disclosures but others raised the possibility of a “third column” type approach.

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

The PAP was of the view that the ED/IPSAS should not specify the prominence of the GGS disclosures. This would then allow jurisdictions making the disclosure to adopt the note or the separate column format, as considered appropriate in their jurisdiction.

The TFHPSA also expressed the view that the separate column and note disclosure approaches could usefully be illustrated as a non-authoritative appendix. (However, see also issue 7 where, subsequently, the TFHPSA expressed a preference for an illustration of IPSAS style GGS financial statements.)

Staff View– October 2004 following PAP discussion

Staff agree with PAP view.

4. If disclosure of GGS information is made, should the IPSAS prescribe the basis for disclosure?

WG1 recommended that the PSC specify the definitions, recognition, measurement and presentation rules to be applied where a government elects to disclose GGS information in its GPFSSs.

Statistical reporting models and IPSASs have many similarities, but there are also differences in approaches taken to the definition, recognition, measurement and presentation of elements of the financial statements. For example, statistical reporting models require entities to use market values for measuring all items, except loans, whilst IPSASs require or permit cost and current values. Differences also occur in classification for example, IPSASs treat dividends as distributions while statistical reporting models treat them as expenses.

Staff Recommendation – July 2004

The objective of this project is to disaggregate IPSAS information (at the “whole of government” level) and to disclose information about the GGS (one sector of the “whole of government”) as defined in statistical financial reporting models. Staff recommend that to achieve the objective of the project, the IPSAS should require entities that elect to make GGS disclosures to apply the same definitions, recognition, measurement and presentation rules that are applied when preparing the consolidated general purpose financial statements, with one exception. That exception being that the consolidation rules established in IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* should not be applied in respect of the GGS. This will enable the link between the IPSAS financial report and the GGS component thereof to be established.

Whether or not a reconciliation should be required of the amounts in the GGS disclosures made in the GPFSSs to the amounts disclosed consistent with the definitions, recognition, measurement and presentation requirements of statistical financial reporting models is considered below under a separate heading (see final issue). Explanation of the need to depart from IPSAS 6 is also discussed below (see consolidation).

PSC Discussion – July 2004

The PSC was supportive of this recommendation, noting that the consequences of the application of IPSAS 6 to the GGS would be a fully consolidated GGS and this did not appear consistent with the WG1 intentions. PSC requested the PAP to confirm or otherwise their support for this recommendation.

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

The PAP agreed that the IPSAS definitions, recognition measurement and presentation notes should be applied where a government elects to disclose GGS information, except that IPSAS 6 should not be disclosed.

Staff View – October 2004 following PAP discussion

Staff agree with PAP view.

5. Consolidation

IPSAS 6 requires controlling entities (including the whole-of-government) to prepare consolidated financial statements that consolidate controlled entities on a line-by-line basis. IPSAS 6 also contains a detailed discussion of the concept of control as it applies in the public sector and guidance on determining whether control exists for financial reporting purposes.

Statistical models of financial reporting require the GGS financial statements to present public sector entities outside that sector as investments in other sectors. In addition, transactions of the GGS with entities in other sectors are not eliminated from the statement of government operations.

The GGS controls entities in other sectors. To adopt the IPSAS 6 rules on consolidation for the GGS would result in the re-presentation of the consolidated whole-of-government financial statements, rather than the GGS financial statements.

Staff Recommendation – July 2004

Staff recommend that the balances and transactions between entities within the GGS be eliminated in accordance with IPSAS 6. Balances and transactions between entities in the GGS and entities in other sectors should not be eliminated, and the GGS should present “investment in other sectors” consistent with statistical reporting models.

PSC Discussion – July 2004

As noted above, the PSC accepted that the consequences of application of IPSAS 6 would not deliver the outcome desired by WG1. In addition, some members requested further input from the PAP on whether the investment in other sectors should be measured consistent with statistical reporting models, by reference to the requirements of IPSASs, or on some other basis.

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

The PAP agreed that the balances and transactions between entities within the GGS be eliminated in accordance with IPSAS 6 and that balances and transactions between entities in the GGS and entities in other sectors should not be eliminated. The PAP also agreed that the GGS should present “investment in other sectors” consistent with the requirements of statistical reporting models.

Staff View – October 2004 following PAP discussion

Staff agree with PAP view.

6. Should GGS information replace segment information?

IPSAS 18 applies to all entities not just those preparing whole-of-government general purpose financial statements. IPSAS 18, paragraph 9, defines a segment as follows:

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.

IPSAS 18 then specifies the rules that are to be applied in compiling segment information. Significant amongst those rules is the application of the principles of consolidation and the treatment of surplus deficit of associates, joint ventures and other investments accounted for on the equity basis.

Paragraph 24 of IPSAS 18 notes that identifying segments only on the basis of budget-dependent entities (usually equivalent to GGS) and GBEs (usually equivalent to the combined PFC and PNFC sectors), would be unlikely to meet the objectives of IPSAS 18.

Staff Recommendation – July 2004

Staff are of the view that identifying the GGS as a segment is not appropriate and that IPSAS 18 should not be replaced by the IPSAS on GGS disclosures. This is because information about the GGS alone would not provide sufficient detail to enable users to evaluate the entity's past performance in achieving major service delivery objectives if those objectives were achieved through non GGS entities. For example, identifying the GGS as a segment would not provide information about a government's performance in achieving its defense, healthcare or educational objectives where government corporations or quasi corporations also pursued these objectives. Because the scope of the GGS is narrower than the whole-of-government, important information would be omitted if entities did not present segment information in respect of their whole-of-government financial statements.

PSC Discussion – July 2004

The PSC was supportive of this recommendation, but requested PAP input. Some PSC members are concerned about information overload if segment information and GGS information are disclosed in the GPFS. In this context, the PSC also requested PAP input on whether a separate IPSAS on GGS disclosure was required or whether IPSAS 1 and/or other IPSASs should be amended.

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

The TFHPSA was of the view that IPSAS 18, "Segment Disclosures" should not be replaced at this stage. However, some members did note that IPSAS 18 may need to be reviewed in the future and that the review should include consideration of the disclosure of semi-financial and/or non-financial performance indicators about major programs, activities, geographical areas or other segments.

The PAP was also of the view that there should be a separate IPSAS on disclosure of information about the GGS in GPFSS.

Staff View – October 2004 following PAP discussion

Staff support the PAP view in respect of IPSAS 18.

However, staff are of the view that a single IPSAS dealing with both cash basis and accrual basis GGS disclosure should not be developed. Staff are of the view that a separate ED should initially be developed for the accrual basis. Subsequently, consideration would be given to the development of an ED on GGS disclosure under the cash basis, and issuance of a separate IPSAS (or amendment to the comprehensive cash basis IPSAS). The PSC may then also consider whether the requirements and encouragements for disclosure of information about the GGS under the cash and accrual bases could be brought together and issued as a separate publication. Such an approach may be useful as an effective mechanism to communicate the IPSAS requirements to the statistical reporting community, while still retaining full cash basis and accrual basis “sets” of IPSASs.

7. Should GGS information be presented in the IPSAS format or the GFS format?

IPSAS 1 *Presentation of Financial Statements* specifies that certain financial information is to be presented in particular financial statements. Statistical reporting models also specify that certain financial information is to be presented in a particular form. The format used to present financial information in a particular jurisdiction may vary depending on whether the jurisdiction uses the format prescribed by GFSM 2001, ESA 95, EMGDD or SNA 93. The GFSM 2001 and IPSAS presentation formats have some similarities, but there are differences.

A key difference in presentation between IPSASs and statistical reporting models is the treatment of “transactions” and “other economic flows”. Transactions are “interactions between two units by mutual agreement or an action within a unit that is analytically useful to treat as a transaction”. Other economic flows are “changes in the value or volume of an asset or liability that does not result from a transaction”.² Not all items that the IPSASs treat as revenues or expenses are treated as transactions in statistical reporting models, which means that some items that are included in the IPSAS statement of financial performance would be included in other economic flows under statistical models. For example:

- Certain downward revaluations of assets including property, plant and equipment, accounts receivable and investment property;
- Reversals of downward revaluations; and
- Gains on sale of property, plant and equipment.

Staff Recommendation – July 2004

Staff recommend that, to facilitate the comparison of the GGS disclosures in IPSASs with statistical reporting models, the IPSAS should require that particular key line items, totals and subtotals prepared in accordance with IPSAS requirements, be disclosed. This would then allow entities to present financial information in the format that is used in the particular jurisdiction for presentation under the statistical reporting models. Therefore, if the entity wished, it could adopt the GFSM 2001 format or another format.

PSC Discussions – July 2004

In the project brief presented to the PSC meeting in July 2004, staff identified a listing of disclosure items drawn from Chapter 4 “The Analytical Framework” of GFSM 2001. These disclosures included key line items for the GFS and in some cases used GFS terminology such as net worth, net lending/borrowing, changes in net worth, and financial assets and non financial assets from other economic flows.

Staff noted that it had received input from some jurisdictions which expressed concern that the disclosures did not “fit” with a disaggregation of the IPSAS financial statements and that use of GFSM 2001 terminology for IPSAS determined/classified/measured line

² See GFSM 2001 *Glossary*.

items and sub-totals would be confusing. Some members also noted that some jurisdictions may not adopt GFSM 2001 reporting formats.

The PSC directed staff to seek input from the PAP on whether it was appropriate that key “line item” disclosures be required for the GGS disclosure, and whether those line items should be based on disaggregating the IPSAS financial statements (and therefore adopting for example, IPSAS terminology, definitions, measurement and classification) or whether this approach required amendment and the nature of the amendments. In this context, members also requested the PAP to consider whether reconciliation to the statistical financial report was needed (see also the final issue in this project brief).

Staff Comment

A listing of potential disclosure items drawn from IPSASs is included at Figure 1. This figure was included in materials provided to WG1 members and other members of the TFHPSA. The following note was also included with these materials: *“Note a separate project will deal with performance reporting. That project is anticipated to lead to convergence of IPSAS and GFS (and any IFRS on this subject), including convergence of presentation and classification formats.”*

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

The PAP was of the view that a “mini” IPSAS financial statements format should be adopted for the disclosure of information about the GGS. Again, this was an issue where TFHPSA members noted that this project dealt with disclosures under IPSAS financial statements, and consequently the GGS information should reflect the IPSAS financial statement structure. Some TFHPSA members noted a desire for this to evolve to the financial statement structure reflected in GFSM 2001, and that progress on the performance reporting project IPSAS financial statements may develop to reflect the transaction/other economic flow split in government financial statistics. However, it was also noted that such an evolution would need to be subject to “due process” and consider IASB developments. As such, time would be need for the PSC to work through the issues. In that sense it was a longer term project.

Some TFHPSA members noted WG1 would need to monitor this aspect of the project as it developed to ensure that the proposal disclosures were consistent with a data base that was useful for drawing GFS data.

Staff View – October 2004 following PAP discussion

Staff agree with the PAP view. However, this issue is closely related to issue three above. Consequently the first draft of the ED should illustrate rather than “require” the “mini IPSAS” format.

FIGURE 1

Statement of Financial Position

- Non-financial assets by major class showing separately investment property and biological assets;
- Financial assets by major class;
- Liabilities by major class showing provisions separately;
- Net assets/equity;

Statement of Financial Performance

- Revenue by major class;
- Expenses by major class;
- Gain or loss on sale of non-financial assets;
- Surplus or deficit;

Statement of Changes in Net Assets/Equity

- Total revaluation increments and decrements and other items of revenue and expense recognized directly in net assets/equity;
- The effects of changes in accounting policies and corrections of errors recognized in net assets/equity;
- Total amounts attributable to controlling interest and minority interests (likely to be relevant only if PNFC and PFC are disclosed);
- The amounts of dividends recognized as distributions to owners during the period (likely to be relevant only if PNFC and PFC are disclosed).

Cash Flow Items

- Cash receipts from operating activities by major class;
- Cash payments for operating activities by major class;
- Net cash inflows from operating activities;
- Cash flows from purchases of non-financial assets by major class;
- Cash flows from sales of non-financial assets by major class;
- Net cash flow from investments in non-financial assets;
- Cash surplus/deficit;
- Net cash flow from financing activities; and
- Net change in the stock of cash.

8. Should entities electing to disclose GGS information disclose the controlled entities that make up the GGS?

IPSAS 6 currently requires entities preparing consolidated financial statements to disclose a list of the significant controlled entities that are included in the consolidation. This provides useful information to users of financial information.

Staff Recommendation – July 2004

Staff recommend that the IPSAS on GGS disclosures require entities electing to disclose GGS information, to disclose which of the entities consolidated under IPSAS 6 are included in the GGS. To develop an understanding of the relationship between IPSAS information and GGS information, and to better understand the GGS information users need to be able to identify which entities are included in the GGS.

PSC Discussion – July 2004

The PSC was supportive of this recommendation and sought PSC input on whether the entities included in the GGS would also be disclosed in statistical reporting models so that a mapping of the scope, and any potential differences therein could be identified.

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

The PAP supported this recommendation. Some members noted that, while not required in statistical reporting models, there was no prohibition on disclosing (probably as a memorandum item) the entities or areas of activity included within GGS.

Staff View – October 2004 following PAP discussion

Staff support the PAP view.

9. Should entities electing to disclose GGS be required to disaggregate GGS information using the Classification of Functions of Government (COFOG)?

IPSAS 18 provides significant discretion for the entity to identify those activities that are key to evaluating the entity's performance and therefore should be identified in segments. These may differ from entity to entity. GFS requires government expenditure to be disaggregated using the COFOG. Ten broad classes are prescribed, with a number of sub-classes. The ten broad categories of COFOG are:

1. General Public Services
2. Defense
3. Public Order and Safety
4. Economic Affairs
5. Environmental Protection
6. Housing and Community Amenities
7. Health
8. Recreation, Culture and Religion
9. Education
10. Social Protection

Staff Recommendation – July 2004

Staff are of the view that the requirements of IPSAS 18 should drive the disclosure of segment information, therefore the IPSAS should not require entities electing to disclose GGS information to disaggregate that information using COFOG.

If entities disclosing GGS information wanted to disaggregate GGS information by COFOG, the IPSAS should not prevent them doing so. It is likely that in jurisdictions where the disclosure of GGS and adoption of GFSM 2001 or other statistical reporting models is adopted to communicate to stake holders information about government finances, the COFOG would be the basis of segmenting the whole-of-government general purpose financial statements.

PSC Discussion – July 2004

The PSC was supportive of this recommendation, but sought PAP confirmation or otherwise.

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

The PAP agreed that COFOG disclosures should not be required in the ED/IPSAS. However, commentary in the ED/IPSAS should explain the role of COFOG, noting that it is focused on classification of expenses/expenditures (and not revenues) and explaining its relationship to guidance under IPSAS 18 on the nature of segments. Moving forward the PAP noted it may be appropriate to review IPSAS 18 (see issue 6 above).

Staff View – October 2004 following PAP discussion

Staff agree with the PAP view.

10. Should a reconciliation of IPSAS and statistical reports be required if GGS disclaimers are made?

Some PSC members raised whether or not a reconciliation should be required of the GGS prepared in accordance with IPSASs (except for IPSAS 6 on consolidation) and the GGS presented in accordance with statistical reporting models.

Staff observation – July 2004

Staff noted that they had not proposed that such a requirement be included because of concerns about the implications and practicability of such a requirement - for example, whether:

- The timing of compilation of IPSAS and statistical information was such that a reconciliation could not be completed within the time frame necessary for the general purpose financial reports to be audited and “signed off” in accordance with legislative requirements or requirements of the IPSASs (IPSAS 1.74 – establishes the expectation of reporting within six months of the end of the reporting period). If for example, the GFSM 2001 or ESA 95 information was not available within the specified time frame, the inclusion of such a requirement could trigger an audit qualification or modification;
- The inclusion of such a requirement would trigger an audit of the reconciliation and may also trigger an audit of the statistical financial reports themselves;
- The reporting entity would be required to remeasure and reclassify assets, liabilities, revenues and expenses in accordance with the requirements of the statistical reporting models, and whether this would discourage disclosure of the GGS information.

There are currently a number of differences between IPSASs and statistical financial reporting models as identified in the matrix developed by WG1. WG1 noted that it may be premature to work on a reconciliation statement at this stage. Differences may be reduced because of ongoing work by the PSC, Working Group 11 and other groups.

PSC comments – July 2004

The PSC noted staff comment and requested input from the PAP on this matter.

Project Advisory Panel (PAP) Comments at TFHPSA and WG1 meeting September 2004

The PAP was divided on this issue. While the majority agreed that no requirement for a reconciliation to the GFS figures should be included in the ED/IPSAS, there were some members strongly of the view that such a reconciliation should be required.

Those that supported a reconciliation were of the view that the reconciliation should be at the “bottom line” of each statement.

Those that opposed the reconciliation were concerned that the GFS data may not be available in auditable form and/or in a timely manner in all jurisdictions. They also noted that this was an area that may develop over time. A number of those present also noted the potential link between this aspect of this project and the PSC project on reporting budget compliance. (See Budget Reporting Agenda item 11 of this PSC meeting).

Staff View – October 2004 following PAP discussion

Staff remain of the view that a reconciliation to GFS data should not be required. However, the ED could usefully note that such a reconciliation is not prohibited and seek respondents' comments on whether a reconciliation should be required.

Additional PAP Comments on GGS Project Brief

From: Paul Sutcliffe [psutcliffe@ifac.org]

Sent: Tuesday, September 14, 2004 10:38 AM

To: Jean-Pierre. DUPUIS; Ian Mackintosh ASB; Brett Kaufmann; Lucie C. Laliberte; BGruber@imf.org; ian.carruthers@HM-Treasury.gov.uk; Philippe.DE-ROUGEMONT

Subject: PSC Update and Project Brief for WG1 Project Advisory Panel

Hi all

A reminder for those of you not attending the TFHPSA meeting next week in Washington. If you have any comments on the project brief please forward them to me. If you are attending the meeting, we can work through the project brief and take your comments at that meeting. So far I have received one response (from Robert Keys). Regards Paul

To members of WG1 that met in Paris in October of 2003 to develop the matrix and to frame the recommendations to the PSC.

Hi all

Following the PSC meeting in March 2004 Ian Mackintosh provided you with an update of the PSC meeting and sought your agreement to join the Project Advisory Panel to provide input on the project dealing with disclosure of information about the General Government Sector (GGS).

The attached material includes an update of PSC discussions at its July 2004 meeting and a draft project brief on the GGS project with a request for input from the PAP. This material will be forwarded to many of you as part of the package for the WG1 component of materials for the TFHPSA meeting that will take place in September of 2004. I am not sure when that will occur, or whether it will reach all of you - given that some have changed employment and may not attend the meeting in September. Hence this distribution.

I have attached a PDF version of the PSC update package for the WG1 component of the September 2004 meeting, which includes the project brief. I have also attached separately a word version of the GGS project brief, which includes a section for the views of PAP members. I would appreciate it if you could forward me your views on the Project Brief by September 3. I will then collate your responses for forwarding to the PSC for its November meeting and provide an update for those attending the WG1 session in September TFHPSA meeting. The views of those attending the September meeting will also be provided to the PSC.

Thanks very much for your input.

Best Regards Paul

Paul Sutcliffe
Technical Director
Public Sector Committee
International Federation of Accountants
1302/530 Little Collins Street
MELBOURNE VIC 3000 Australia

From: Betty Gruber [betty.gruber@abs.gov.au]
Sent: Friday, September 17, 2004 2:23 PM
To: Paul Sutcliffe
Subject: Re: FW: PSC Update and Project Brief for WG1 Project Advisory Panel

Hi Paul

I have reviewed the General Government Sector (GGS) Project Brief as requested. As a Working Group I member (not sure of my representation) here are my thoughts.

I was very pleased to see in the brief an open and cooperative approach to the issues.

Thinking through what preparers of financial reports and possible subsequent statistical reports have to do, there are a series of steps. These are:

- (i) capturing source data in sufficient detail to meet requirements for internal and external reporting, preferably including GFS requirements (at least GGS but possibly for sector reports for PNFC, PFCs and total public sector, e.g. Australia's GFS outputs);
- (ii) preparing of whole of government (WoG) GPFRs according to accounting standards (IPSASs);
- (iii) mapping of accounting data to, and possibly collecting additional data to meet, GFS requirements, if the original capturing of the data did not provide for GFS requirements;
- (iv) preparing GFS-based and/or SNA/ESA95 statistical reports; and
- (v) possibly explaining the relationship between (ii) and (iv).

If we go down the route of preparing a GGS view according to IPSAS rules we add an extra step and create a need for a second reconciliation statement to explain the relationship between an IPSAS-based WoG and GGS view.

Therefore, from a pragmatic point of view, it might be preferable to prepare a GGS view according to the GFSM 2001 with a reconciliation statement to the IPSAS-based GPFRs and show this as a three column view in the notes to the accounts. Hopefully, that GGS GFSM-based view will then be consistent with the GGS GFS views published elsewhere, e.g. the IMF's GFS Yearbook.

To put a GGS GFSM-based view on the face of the statements would be too confusing to the accounting users (especially if it contained GFS balances) and a GGS IPSAS-based view confusing for statistical users.

However, I recognise this creates some problems in terms of producing all the material in the tight time frame for the preparation of annual reports and possibly has audit implications.

Although it would be great to have a GGS view as mandatory, I think the first important step is to introduce it into the IPSASs by way of an allowed/encouraged approach.

It is preferable to have information for the different levels of government. Following on from point 3 this should be allowed/ encouraged rather than being required.

A GGS view in GPFRs of entities applying the cash basis is desirable. Same comments as in points 2 and 3 above apply.

Segment information should remain. It will be different to GGS reporting on a functional basis but how close would it be to public sector reporting on a functional basis? Do the two views (accounting and statistical) create confusion for users? Perhaps GGS x COFOG could be encouraged.

I am inclined to go for an amendment to IPSAS 1 but if a reconciliation statement is introduced it may mean an extra IPSAS is required.

For reporting to the IMF for the GFS Yearbook countries do not have to list every entity included. They only need to identify groups of entities with possible numbers for each group, e.g. x departments, y security funds, z local governments. Possibly, nationally, they have to list the entities included in their GPFRs.

Hope this is of some use. Happy to discuss.

Have a good trip and meeting. Say hi to the folk I have met at the previous meetings.

Betty

From: Robert Keys

Comments on IFAC PSC Project Brief – Disclosure of Financial Information Related to the General Government Sector

Page 11 Project Objective

The project objective appears to accept that its aim is to “allow/encourage” disclosures about the GGS. Given the discussion of key issue 2 on page 12 I think that the project objective should be written to open up the question of whether GGS disclosures should be required.

Key Issues

1. Should the IPSAS apply to all entities or only to those presenting whole-of-government general purpose financial statements?

The IPSAS should apply to disclosure of GGS information in whole-of-government general purpose financial statements prepared under the accrual basis of accounting. In principle this would include local governments, although a cost benefit analysis should be applied for them.

To the extent that a whole-of-government controls another level of government, the IPSAS should contemplate disaggregation to identify the GGS information at each level of government.

In principle, GGS information could be disclosed by all entities within the GGS (for example, government departments). However, given the macro-economic focus of statistical reporting models, I believe that GGS disclosures are most relevant in a whole-of-government reporting context.

In relation to disclosure of GGS information in GPFSS prepared under the cash basis of accounting, I agree with the approach described in the 2nd paragraph under the heading “Project Objective”. Because statistical models adopt accrual principles, consideration will need to be given to whether GGS disclosures in cash based financial reports should be accrual and/or cash based.

2. Should the disclosure of GGS information and information about other sectors be mandatory?

I agree that GGS disclosure should be allowed/encouraged rather than mandated (I note that this would not preclude a country that adopts a policy of harmonising with IPSASs from mandating disclosure). However, if GGS information is disclosed, I think that other sector information should also be required to be disclosed – but maybe less prominently than the GGS information.

3. What prominence should be given to GGS disclosure in the general purpose financial statements?

Consistent with allowing GGS information to be disclosed, based on a government’s assessment of information needs of users, governments should be able to determine, based on user needs, the prominence that should be given to GGS information. That prominence should not be allowed to be greater than the primary financial statements. Therefore, a separate column should be allowed.

I believe that giving GGS information greater prominence than a note will not complicate/confuse users, particularly to the extent that convergence between IPSASs and GFSM 2001 is achieved (see issue 10).

4. If disclosure of GGS information is made, should the IPSAS prescribe the basis for disclosure?

I agree that definition, recognition, measurement and presentation requirements for the GGS should be specified by the PSC in an IPSAS, and those requirements should be consistent with the basis adopted in the consolidated GPFSS (with the exception of IPSAS 6 – in relation to which I agree that a full consolidation approach to GGS investments in controlled entities in other sectors would defeat the purpose of disclosing separate information about the GGS).

I see this approach as an interim step – in the meantime we should strive to converge IPSAS and statistical models' definition, recognition, measurement and presentation requirements.

I note that if this approach is adopted (that is, adopt IPSAS definition, recognition, measurement and presentation rules for the GGS – other than for consolidation) it would be less likely that disclosure of the GGS information as a separate column would be confusing to users (see issue 3).

5. Consolidation

I believe that GGS information should present investment in other sectors as a single line item (rather than a line-by-line consolidation of the underlying assets and liabilities of those sectors).

Furthermore, I believe that the investment should be measured using IPSAS principles. As there is no IPSAS specific to the measurement of a sector's equity investments in controlled entities, it will be necessary to develop relevant guidance.

Alternative possible sources of guidance are IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 27 *Consolidated and Separate Financial Statements*.¹ However, as the GGS is a sector rather than a reporting entity or a parent entity, it is questionable whether the requirements in these standards should apply. In addition, their application would not result in significant convergence with the GFSM 2001 approach to measurement of GGS investments, as they are likely to result in most investments being measured with primary reference to cost, because:

- under IAS 27.37 a parent preparing separate financial statements measures investments in subsidiaries at cost or in accordance with IAS 39; and
- under IAS 39.43 when a financial asset is recognised initially it is measured at “fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition...”. Under IAS 39.46, after initial recognition, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably

¹ The IPSAS that corresponds with IAS 27 is IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities*. Under IPSAS 6 a controlling entity preparing separate financial statements accounts for investments in controlled entities using the equity method as described in IPSAS 7, or as an investment. Therefore, under the circumstances described in the paragraph below the dot points, an option in IPSAS 6 aligns with my view. However, I note that the PSC will consider amending IPSAS 6 as part of its IASB harmonization project.

measured are measured at cost.² IAS 39 does not directly canvas whether the net asset value of an entity would be a reliable measure of the fair value of the entity. I believe that it would only be coincidental for net assets to equal fair value, due to a number of factors, including the effect of unrecognised assets.

In the absence of any directly applicable existing standard for sectors, arguably internal consistency of measurement across the sectors within the whole of government financial report is a reasonable basis for determining a measurement approach. Under this criterion it would be appropriate to prescribe measurement to be the GGS's proportional share of the carrying amount of the net assets of the controlled entities, updated each reporting date. This approach is akin to the equity method of accounting under IPSAS 7 *Accounting for Investments in Associates* and IAS 28 *Investments in Associates* (adapted to apply to controlled entities rather than associates), particularly where the controlled entity was established by the controlling entity and the cost of acquisition does not differ from the controlling entity's proportional interest in the net assets of the controlled entities at the date of establishment/acquisition.

This approach would ensure that the measurement basis of GGS investments in controlled entities in other sectors articulates with the measurement basis of net assets disclosed in relation to non-GGS sectors in the whole of government general purpose financial report. This treatment would converge with statistical reporting models in relation to those investments where equity instruments are not actively traded (which is the more common type of GGS investments in other sectors). However, this treatment would differ from the statistical models' measurement of an investment at the market value of shares owned where they are traded/listed, for example in relation to the Australian Government's investment in Telstra.

6. Should GGS information replace segment information?

I agree that sectors are not the same as segments.

I believe that concerns about the risk of information overload are mitigated if sector information is only disclosed when it is assessed to be relevant to users (see issue 2).

In relation to the location of the GGS requirements (raised in the PSC discussion section), I am not too concerned where they reside – although given the ongoing nature of the project and the substantive nature of the issues, I suspect that a separate IPSAS would be more suitable in the long run.

7. Should GGS information be presented in the IPSAS format or the GFS format?

While the heading refers only to “presentation”, the third paragraph in the PSC discussions section infers that differences in definition, recognition, measurement and classification could be accommodated in the project through, for example, a reconciliation to GFS financial aggregates and analytical balances. Perhaps the heading could be amended to reflect that the issue involves more than just format.

The purpose of GGS information is to meet user needs for macro economic analysis (eg. fiscal impact) within an integrated system of national accounts. Consequently, I believe that

² I also note that the IASB may raise the bar on the use of the fair value option from “reliable” to “verifiable” measurement.

GGs aggregates and analytical balances that do not have GAAP equivalents (eg net lending/borrowing) should be measured using GFSM 2001 rules. GGS aggregates and analytical balances that have GAAP equivalents (eg net operating balance) should be first measured using IPSAS rules (per issue 4) and then a reconciliation shown to the GFSM 2001 calculation (see issue 10).

To the extent that complete convergence is not possible then perhaps multi purpose financial statements should be developed to meet the needs of users of general purpose financial statements on the one hand, and the needs of those users who are interested in analysing the macro-economic impact of the GGS on the other.

To this end it would be worth considering changing the IPSAS statement of financial performance format, for example, to bring it closer to the GFSM 2001 approach by distinguishing “transactions” from “other economic flows” in two separate columns; and by incorporating the net lending/borrowing analytical balance.

8. Should entities electing to disclose GGS information disclose the controlled entities that make up the GGS?

Yes, the entities should be disclosed – as should changes in the list of controlled entities from year to year and the reasons for changes.

9. Should entities electing to disclose GGS be required to disaggregate GGS information using the Classification of Functions of Government?

I agree with the PSC staff recommendation.

10. Should a reconciliation of IPSAS and statistical reports be required if GGS disclosures are made.

I believe a reconciliation between GGS information prepared on an IPSAS basis (per issue 4) and GGS information prepared according to GFSM 2001 should be required. This is because, as noted above, GGS information based on GFSM 2001 principles is effectively part of the System of National Accounts. That system considers the whole economy and the interrelationships of various economic sectors (only one of which is the general government), and to measure economic impact (arguably the primary objective of GFSM 2001) a consistent basis under an articulated system is necessary.

I acknowledge concerns that reconciling information may be confusing to users. However, I believe that disclosure of reconciling information to allow user needs for GFSM 2001 information to be met in a general purpose financial statements context is relevant and would not be confusing. While a reconciliation may be lengthy at this stage, as convergence of underlying definition, recognition, measurement and presentation is progressed, the extent of reconciliation needed will diminish.