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Agenda Item

3.0

Date: May 23, 2012
Memo to: Members of the IPSASB
From: Ian Carruthers / Gwenda Jensen
Subject: Alignment Consultation Paper – Approve Paper

Objective of this Session

1. To **approve** the Consultation Paper, *Alignment of IPSASs and Government Finance Statistics Reporting Guidelines*, after considering three issues related to the paper.

Agenda Material

2. Agenda material attached to this memorandum:
 - 3.1 Draft Consultation Paper

Background

Project, Task Force, and IPSASB Brasilia (December 2011) Decisions

3. At its June 2011 meeting the IPSASB approved the Alignment Project. The project is the responsibility of a Task Force chaired by Ian Carruthers. The Task Force is made up of IPSASB Members, and representatives of the statistical community, including IPSASB Observers Sagé de Clerck (IMF) and John Verrinder (Eurostat). Other Task Force Members are: André Schwaller (Swiss Federal Government), Lindy Bodewig, Marta Abilleira, Thomas Müller-Marqués Berger, Tim Youngberry, and Bruno Fabrício Ferreira da Rocha (Government of Brazil). Karen Sanderson (United Kingdom Treasury) has also recently joined the Task Force.
4. At its December 2011 meeting the IPSASB:
 - (a) Approved a draft Appendix for inclusion in the International Monetary Fund's (IMF's) Government Finance Statistics Manual (GFSM);
 - (b) Provided input into a detailed table of alignment issues, summarizing progress since 2005 and issues' present status;
 - (c) Identified alignment issues to be addressed through the IPSASB's work plan, and
 - (d) Reviewed a draft structure for the Consultation Paper (CP).
5. The draft CP's Section 2 is essentially the same as the equivalent coverage in the IMF's GFSM Appendix, which the IPSASB reviewed in December, 2011. Section 3 is based on the table of alignment issues, which the IPSASB also reviewed in December. (The detailed table of issues is included in Appendix B of the CP.)

Progress Since December 2011

6. Since the IPSASB's December meeting, the main progress has been:
- Development of the draft CP;
 - Further refinement to the detailed list of alignment issues;
 - Work with the IMF on finalizing the GFSM Appendix;
 - Identification of options with respect to: (a) support for management of IPSAS/GFS differences; and, (b) changes to IPSASB procedures that could better support alignment.

Task Force Meeting (7 March, 2012) and Prior Reviews of the Draft Consultation Paper

7. Work has progressed mainly through email and teleconferences. On 7 March the Task Force had an all-day, face-to-face meeting. That meeting included presentations by Tim Youngberry, André Schwaller, and Karen Sanderson. In addition to reviewing an earlier draft of this CP, the Task Force discussed (a) IPSAS 22, *Disclosure of Financial Information about the General Government Sector* (IPSAS 22); (b) usage of IPSAS asset/depreciation information for GFS reporting; (c) support for "dual use" Charts of Accounts that generate both IPSAS and GFS information; and (d) IPSASB procedure changes that could better support alignment.
8. The draft CP was amended for issues identified at the Task Force's March meeting, then went through two further Task Force reviews. The IMF's GFS Advisory Committee reviewed the CP at its mid-May meeting in Washington, focusing on Section 5, where changes to statistical guidelines are set out. The Committee's verbal feedback was positive. Written comments, submitted to the IMF before the IPSASB's June meeting, will be collated by IMF staff, and provided to IPSASB staff.
9. Given the Task Force and IPSASB reviews that have already occurred, and the consultative nature of the CP, this memo does not discuss each of the Specific Matters for Comment and Views in detail. (Although, they are listed in the Appendix for ease of reference.) Instead this memo focuses on three issues on which further substantial progress has been made since March 2012.

Overview of Issues

Issue 1: IPSAS 22 Revisions

Should the CP ask constituents for their views on (a) making IPSAS 22 mandatory; and (b) replacing IPSAS 22 with a different approach?

Issue 2: Alignment Guidance in Study 14

Should the CP:

(a) (i) Consult on including GFS alignment guidance in Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* (Study 14); or (ii) simply note that the IPSASB has decided to include such guidance?

(b) Propose Study 14 alignment guidance that (i) covers *both* alignment options and guidance on the development of dual-use Charts of Account, or (ii) only covers alignment options?

Issue 3: Changes to IPSASB Procedures

Should the CP ask constituents for their views on IPSASB procedural and other changes that could better support alignment of IPSASs with GFS reporting guidelines?

Discussion of Issues

Issue 1: IPSAS 22 Revisions (*CP paragraphs 4.24 to 4.27*)

10. Members are asked whether the CP should ask constituents for their views on:
- (a) Making IPSAS 22 mandatory; and
 - (b) Replacing IPSAS 22 with a new IPSAS that introduces an integrated (AASB 1049-style) approach to whole of government financial statements and GGS reports.
11. It could be argued that these two possibilities are too radical in terms of possible IPSAS 22 revisions. However the Task Force considers that consultation on these two possibilities will provide valuable feedback on constituents' views about the type of role that IPSASs should play in supporting GFS reporting. The CP identifies other IPSAS 22 revisions, such as (a) updating the references to GFS reporting guidelines, and (b) including guidance on GFS alignment options, which could be closer to what was originally envisaged, when the IPSASB approved the Alignment Project.

Action Requested:

Members are asked to provide direction to staff on whether the CP should ask constituents for their views on (a) making IPSAS 22 mandatory; and (b) replacing IPSAS 22 with a different approach.

Issue 2: Alignment Guidance in Study 14 (*CP paragraphs 4.16 to 4.19, and 6.10 to 6.14*)

12. The draft CP asks for constituents' views on whether alignment guidance should be included in Study 14. If Board Members strongly agree that the present lack of alignment guidance in Study 14 should be addressed, then a better approach could be to *note* that the IPSASB plans to develop such guidance, rather than ask constituents for their views. Study 14 aims to support governments' transition to the accrual basis. Issues related to how best to support GFS reporting needs should be considered when making this transition.
13. If Board Members support moving ahead with alignment guidance for inclusion in Study 14, then the question arises of what type of guidance should be included. Should the guidance cover (i) choice of IPSAS-aligned options; *and* guidance on the development of dual-use Charts of Account; or (ii) should the guidance *only* cover choice of IPSAS-aligned options?
14. The issue of dual-use Charts of Account guidance is complicated by the alternative possibility of developing a standard Chart of Accounts. The draft CP argues against attempting to develop a standard Chart of Accounts, then asks for feedback on providing guidance on the development of dual-use Charts of Account. It could be argued that development of such guidance should wait for the outcome of this consultation.

Action Requested:

Members are asked to provide direction to staff on whether the CP should:

- a) (i) Consult on including GFS alignment guidance in Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* (Study 14); or
- (ii) simply note that the IPSASB has decided to include such guidance.
- (b) Propose Study 14 alignment guidance that (i) covers *both* alignment options and guidance on the development of dual-use Charts of Account, or (ii) only covers alignment options.

Issue 3: Changes to IPSASB Procedures (Section 7)

15. The draft CP presently asks constituents for their views on whether the IPSASB should introduce procedural changes to better support alignment of IPSASs with GFS reporting guidelines. Section 7 of the CP provides a list of possible changes, which includes¹:
- (a) Inclusion of GFS comparisons in all IPSASs, similar to the IFRS comparisons that are presently included;
 - (b) GFS Alignment issues considered regularly by the IPSASB, on an annual, biennial, or triennial basis, similar to the annual improvements projects that address IFRS changes. (This would contrast with the present approach; GFS alignment is treated on an ad hoc basis, with new initiatives individually approved as part of the IPSASB's work plan, and their frequency being approximately once every seven years.); and
 - (c) Development of a "Rules of the Road" equivalent for the IPSASB's GFS alignment commitment that would set out the applicable policies and decision process the IPSASB follows when considering issues that impact on GFS alignment.
16. The Task Force considers that consultation on these possibilities will provide valuable feedback on constituents' views about the relative importance of GFS alignment to IPSAS development. Board Members may consider that consulting on this type of change is outside of the project's scope, and this coverage should not be included in the CP.

Action Requested:

Members are asked to provide direction to staff on whether the CP should ask constituents for their views on IPSASB procedural and other changes that could better support alignment of IPSASs with GFS reporting guidelines.

¹ These items are three of the six possible changes listed in Section 7 of the CP, selected to illustrate the range of different types of actions listed there.

APPENDIX: SPECIFIC MATTERS FOR COMMENT AND VIEWS

Specific Matter for Comment 1 (See Section 2)

With respect to Section 2's description of differences between IPSASs and GFS reporting guidelines

- (a) Do you agree with the description? If not, why not?
- (b) Are there further differences that should be added to this high-level description?

Specific Matter for Comment 2 (Table 2 in Section 3 and Appendix B)

With respect to Table 2's summary of alignment progress and the supporting detail in Appendix B

- (a) Do you agree that the issues categorized as resolved (Category A in Table 2) are indeed resolved? If not, why not?
- (b) Are there further alignment issues that should be added to this list? If so, why?

Specific Matter for Comment 3 (Paragraphs 4.24 to 4.27)

Do you agree with either of the following possible IPSASB actions?

- (a) The IPSASB should make IPSAS 22, *Disclosure of Information About the General Government Sector* mandatory; or
- (b) The IPSASB should replace IPSAS 22 with a new IPSAS that introduces an integrated (AASB 1049-style) approach to whole of government financial statements and GGS reports.

Specific Matter for Comment 4 (Paragraphs 6.10 to 6.14)

Do you agree that the IPSASB should develop guidance on the development of dual-use Charts of Accounts, which would include (a) an overview of the basic components of a dual-use Chart of Accounts, and (b) wider coverage such as that listed in paragraph 6.14 of this CP?

Specific Matter for Comment 5 (Section 7)

- (a) Do you think that the IPSASB should take a more systematic approach to aligning IPSASs and GFS reporting guidelines? If not, why not?
- (b) If so, which of the approaches listed in paragraph 7.1, (a) through (f), should the IPSASB adopt?
- (c) Are there other approaches that the IPSASB should adopt? Please describe these.

View 1 (Paragraphs 4.11 to 4.13) Discussions should be initiated between the IPSASB, the International Valuation Standards Council, and members of the statistical community to develop a comprehensive, agreed-upon description of public sector valuation bases.

View 2 (Paragraphs 4.14 to 4.15)

The IPSASB should consider including the following projects on its medium- to longer-term work plan:

- (a) A “comprehensive income” approach to presenting income; and
- (b) A revision to IPSAS 2, *Cash Flow Statements*, to include an option to present cash flows in accordance with the GFS framework.

View 3 (Paragraphs 4.16 to 4.19)

The IPSASB should consider amending Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*, to include a chapter on options to achieve alignment with GFS reporting guidelines.

View 4 (Paragraphs 4.20 to 4.23)

The IPSASB should consider

- (a) Including guidance on GFS-aligned options in (i) IPSAS 22, *Disclosure of Financial Information About the General Government Sector* and/or (ii) individual IPSASs that include a GFS-aligned option; and,
- (b) Making other changes to IPSAS 22, depending on the outcome of constituents’ responses to the Views in this CP .

View 5 (Paragraphs 5.7 to 5.9)

The statistical community should consider ways to encourage preparers of GFS reports to use accrual-based financial reporting data as the basis for GFS reports, turning to alternative data sources only where the financial reporting data has clearly failed to meet GFS reporting needs.

View 6 (Paragraph 5.10)

The statistical community should consider whether there is scope to include guidance on reporting on extractive industries, aligned to the applicable international accounting standards (IFRS 6, *Exploration for and Evaluation of Mineral Resources* and IPSAS 29, *Financial Instruments: Recognition and Measurement*), in GFS reporting guidelines.

View 7 (Paragraph 5.11)

The statistical community should consider whether there is scope to include guidance on reporting on decommissioning/restoration costs, aligned with IPSAS 17, *Property, Plant and Equipment*, in GFS reporting guidelines.

View 8 (Paragraphs 5.12 to 5.14)

The statistical community should consider whether there is scope to include guidance in GFS reporting guidelines on reporting service concession arrangements, consistent with the applicable international accounting standards and interpretations (IPSAS 32, *Service Concession Arrangements: Grantor*, IFRIC 12, and SIC-292).

View 9 (Paragraphs 5.15 to 5.18)

The statistical community should consider (a) whether there is scope to provide further guidance on the treatment of subscriptions to international organizations, and (b) how it could work with the IPSASB to

ensure consistency with the guidance that the IPSASB plans to develop through its public sector-specific financial instruments project.

View 10 (Paragraphs 5.19 to 5.20)

The statistical community should consider whether there is scope to include guidance on when costs associated with R&D and internally generated intangibles should be either capitalized or expensed, aligned with the IPSAS 31, *Intangible Assets* treatment, in GFS reporting guidelines.

View 11 (Paragraphs 5.21 to 5.23)

The statistical community should consider whether there is scope to provide input into SNA consideration of the issue of low-interest and interest-free loans, to ensure that (a) measurement of these loans remains aligned with the IPSAS approach, and (b) consideration is given to including values and related value changes in GFS reports.

*International Public Sector Accounting Standards
Board*

Alignment of IPSASs and Government Finance Statistics Reporting Guidelines

REQUEST FOR COMMENTS

The International Public Sector Accounting Standards Board, an independent standard-setting body within the International Federation of Accountants (IFAC), approved for publication in June 2012 this Consultation Paper, *Alignment of IPSASs and Government Finance Statistics Reporting Guidelines*.

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by December 31, 2012.** Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website.

Although IFAC prefers that comments be submitted through its website, an email may be sent to stepheniefox@ifac.org. Comments can also be faxed to the attention of the IPSASB Technical Director at +1 (416) 204-3412, or mailed to:

The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 8th Floor
Toronto, Ontario M5V 3H2 CANADA

Copies of this Consultation Paper may be downloaded free-of-charge from the IFAC website at www.ifac.org.

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Executive Summary

This Consultation Paper (CP) describes the relationship between International Public Sector Accounting Standards (IPSASs) and Government Finance Statistics (GFS) reporting guidelines.. Significant benefits can be gained from generating IPSAS financial statements and GFS reports using a single, dual-use, financial information system. A dual-use system means that GFS report preparation time, costs, and efforts are reduced, while improvements can be expected in GFS report quality, including timeliness. Improvements to the understandability and credibility of both types of reports are also likely to result. This CP therefore aims to support (a) further resolution of differences between these two reporting systems, and (b) management of remaining differences, so that IPSAS data can be used as the basis for GFS reports.

After a brief introduction in Section 1, Section 2 describes the relationship between IPSASs and GFS reporting guidelines. The two reporting systems have significant commonality. The two sets of information that result (a) are both financial, accrual-based information, (b) show a government's assets, liabilities, revenue, and expenses, and (c) include comprehensive information on cash flows. But their different objectives and separate development have resulted in differences, including different reporting entity definitions, and specific differences with respect to recognition, measurement, and presentation. Some differences are fundamental, while for others alignment is possible.

Section 3 describes progress that has occurred on aligning IPSASs with GFS reporting guidelines, and identifies the remaining differences. It then groups differences as follows:

- Category A Issue now resolved
- Category B Scope for increasing alignment through changes to IPSASs
- Category C Scope for increasing alignment through changes to GFS reporting guidelines
- Category D Differences needing to be managed through systems design, data collection, and/or mapping

Sections 4, 5, and 6 then build on Section 3 by providing views on actions that can be taken to address the differences in Categories B, C, and D. Section 4 provides views on IPSASB actions that would further align the two reporting systems. Section 5 provides views on changes to statistical guidelines, for consideration by the statistical community. Section 6 describes ways that differences can be managed. It then discusses how the IPSASB could support governments to develop financial information systems that generate both financial statements prepared under IPSASs and GFS reports. The main focus is on support for governments' development of dual-use Charts of Accounts (CoAs). The last section, Section 7, discusses systemic changes to the IPSASB's procedures that would help to embed GFS alignment considerations into the IPSASB's development of new and improved IPSASs.

Guide for Respondents

The IPSASB welcomes comments on all of the matters discussed in this CP. The CP highlights four specific matters for comment, and eleven views reached by the Task Force. These are provided below to facilitate your comments. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, and contain a clear rationale, including reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.

Specific Matter for Comment 1 (See Section 2)

With respect to Section 2's description of differences between IPSASs and GFS reporting guidelines

- (a) Do you agree with the description? If not, why not?
- (b) Are there further differences that should be added to this high-level description?

Specific Matter for Comment 2 (Table 2 in Section 3 and Appendix B)

With respect to Table 2's summary of alignment progress and the supporting detail in Appendix B

- (a) Do you agree that the issues categorized as resolved (Category A in Table 2) are indeed resolved? If not, why not?
- (b) Are there further alignment issues that should be added to this list? If so, why?

Specific Matter for Comment 3 (Paragraphs 4.24 to 4.27)

Do you agree with either of the following possible IPSASB actions?

- (a) The IPSASB should make IPSAS 22, *Disclosure of Information About the General Government Sector* mandatory; or
- (b) The IPSASB should replace IPSAS 22 with a new IPSAS that introduces an integrated (AASB 1049-style) approach to whole of government financial statements and GGS reports.

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Specific Matter for Comment 5 (Section 7)

- (a) Do you think that the IPSASB should take a more systematic approach to aligning IPSASs and GFS reporting guidelines? If not, why not?
- (b) If so, which of the approaches listed in paragraph 7.1, (a) through (f), should the IPSASB adopt?
- (c) Are there other approaches that the IPSASB should adopt? Please describe these.

View 1 (Paragraphs 4.11 to 4.13) Discussions should be initiated between the IPSASB, the International Valuation Standards Council, and members of the statistical community to develop a comprehensive, agreed-upon description of public sector valuation bases.

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The IPSASB should consider including the following projects on its medium- to longer-term work plan:

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- (a) Including guidance on GFS-aligned options in (i) IPSAS 22, *Disclosure of Financial Information About the General Government Sector* and/or (ii) individual IPSASs that include a GFS-aligned option; and,
- (b) Making other changes to IPSAS 22, depending on the outcome of constituents’ responses to the Views in this CP .

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View 9 (Paragraphs 5.15 to 5.18)

The statistical community should consider (a) whether there is scope to provide further guidance on the treatment of subscriptions to international organizations, and (b) how it could work with the IPSASB to ensure consistency with the guidance that the IPSASB plans to develop through its public sector-specific financial instruments project.

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View 11 (Paragraphs 5.21 to 5.23)

The statistical community should consider whether there is scope to provide input into SNA consideration of the issue of low-interest and interest-free loans, to ensure that (a) measurement of these loans remains aligned with the IPSAS approach, and (b) consideration is given to including values and related value changes in GFS reports.

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1. Introduction

- 1.1 Governments produce two main types of financial information: (a) financial statistics on the general government sector for the purpose of macroeconomics analysis and decision making, and (b) general purpose financial reports (GPFRs) for accountability and decision making at an entity level. There are significant benefits to be gained from maximizing the alignment of the two systems. Preparers gain by increased efficiency, while users gain through having more reliable, credible, understandable, and timely information. This CP: (a) describes how alignment has, over the last seven years, been improved, and (b) discusses ways to further increase alignment. It also considers ways to support the management of remaining differences, so that the same information system can be used to generate both IPSAS financial statements and the majority of information necessary to produce GFS reports.

Statistical Bases for Reporting Financial Information

- 1.2 The overarching standards for macroeconomic statistics are set out in the *System of National Accounts* (SNA). The SNA is a framework for a systematic and detailed description of the national economy and its components, including the general government sector and its relations with other economies. It is under the joint responsibility of the United Nations, the International Monetary Fund (IMF), the Commission of the European Communities, the Organisation for Economic Co-operation and Development (OECD) and the World Bank. The latest version of the SNA, the 2008 SNA, was issued in 2008. The 2008 SNA updated the 1993 version, the SNA 1993, to address issues brought about by changes in the economic environment, advances in methodological research, and users' needs.
- 1.3 Internationally recognized macroeconomic statistical methodologies are harmonized with the SNA to the extent possible, while remaining consistent with their own specific objectives. The current version of the European Union's legislated rules for national accounts, the *European System of Accounts* (ESA 95), is consistent with the SNA 1993. For non-EU government finance statistics, the key source of guidance is the IMF's *Government Finance Statistics Manual* (GFSM). The latest version of the GFSM, GFSM 2001, is also harmonized with the SNA 1993. The ESA and GFSM are both currently under revision to harmonize them with 2008 SNA.

International Public Sector Accounting Standards

- 1.4 International Public Sector Accounting Standards (IPSASs) are developed specifically to address the financial reporting needs of public sector entities around the world. A number of the IPSASs have been developed using International Financial Reporting Standards (IFRSs) as a starting point. However an analysis is undertaken to identify public sector specific issues and address them in order to ensure that the standards reflect public sector circumstances. In addition, the IPSASB has developed a number of public sector specific standards that are unique for the public sector. IPSASs apply to GPFRs of public sector entities other than Government Business Enterprises (GBEs). GPFRs, which include general purpose financial statements (GPFs), are prepared to achieve the objectives of GPFRs, which are to provide information about the entity that is useful to users for accountability and decision-making purposes.
- 1.5 A close relationship exists between the approaches used in IPSASs and GFS reporting guidelines. A government's preparation of financial statistics that meet GFSM or other GFS reporting guidelines is facilitated by applying high-quality accrual accounting standards such as IPSASs. This is because a comprehensive and harmonized accrual accounting system greatly improves the source

data necessary for compiling public sector statistical reports. Source data quality improvements result from applying financial reporting standards to (a) the recording of transactions, and (b) the independent external audit of the systems and information produced.

Alignment Initiatives

- 1.6 The Task Force on Harmonization of Public Sector Accounting (TFHPSA) was created in 2003. This was the first formal initiative to harmonize accounting standards and GFS reporting guidelines. The TFHPSA was sponsored by the IPSASB and the IMF, with support from Eurostat and national government and statistical office representatives. The TFHPSA's major outputs were (a) development of proposals for changes to public sector statistics to inform the 2008 update of the SNA, and (b) a research report, issued in 2005, which systematically documented similarities and differences between the two reporting systems.¹ The TFHPSA's convergence recommendations with respect to financial reporting standards focused on changes to IPSASs.
- 1.7 Appendix A expands on this introduction, providing further information on alignment-related developments since the 2005 research report, including
 - IPSAS developments, including issuance of IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, in 2006; and
 - Statistical reporting developments, including changes implemented through the SNA, ESA, and GFSM revisions.
- 1.8 Since 2005, substantial progress has been made on the recommendations included in the TFHPSA's research report. That progress is summarized in Section 3 of this CP, with further detail provided in Appendix B. Appendix A also describes ongoing IPSAS developments, including the IPSASB's Conceptual Framework Project.
- 1.9 In 2011, the IPSASB approved a new project, the Alignment of IPSASs and Public Sector Statistical Reporting Guidance, to further enhance and promote the reconciliation and harmonization of IPSASs and public sector GFS reporting guidelines.² This CP is the first formal output from that project.

¹ Further information on this 2005 research report, *International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence*, and the TFHPSA is provided in Appendix A.

² The project brief is available from the IFAC website, within the projects subsection of the public sector section, at <http://www.ifac.org/public-sector/projects/alignment-ipsass-and-public-sector-statistical-reporting-guidance> .

2. Comparison of IPSASs and GFS Reporting Guidelines

- 2.1 There is considerable commonality between IPSASs and GFS reporting guidelines. This section provides a generalized description of the relationship between IPSASs and the GFS reporting guidelines, focusing on the basic principles that explain why the two reporting frameworks differ in certain areas. It provides a summary of how to reconcile these two very similar yet—in important ways—different sets of information. If suitable adjustments are made to address the differences described here, audited IPSAS-based financial reporting information can be used as a high-quality source for the data necessary for GFS reports.
- 2.2 This description is the same as the one included in an appendix with the same heading as this section, drafted for inclusion in the IMF's forthcoming GFSM 2012.³ As is the case in the GFSM appendix, readers are referred to the GFSM 2012 for more detailed explanations of GFS reporting guidelines.
- 2.3 The information provided here is at a high level, and focuses on identification of alignment issues. It is not designed to provide detailed current information about either IPSASs or GFS reporting guidelines. Detailed information on specific topics can be found through reference to individual IPSASs, ESA 95 and the GFSM 2012. Both IPSASs and GFS reporting guidelines are dynamic and change over time. IPSASs, for example, have annual improvements, which typically impact on a number of different IPSASs. The Conceptual Framework Project, mentioned in Section 1 may also result in changes to IPSASs. A list of IPSASs as of [June] 2012 is provided in Appendix A. For the most current IPSASs and detailed information on them, it is important to refer to the Standards themselves. Section 3 and Appendix B provide more detail on some specific differences.
- 2.4 Differences between IPSASs and GFS reporting guidelines are of two main types: (a) underlying conceptual differences, and (b) presentation and terminology differences.

Conceptual Differences between IPSASs and GFS Reporting Guidelines

- 2.5 The main conceptual differences between IPSASs and GFS reporting guidelines relate to
1. Objectives;
 2. Reporting entity;
 3. Recognition criteria for assets, liabilities, revenue, and expenses;
 4. Valuation (measurement); and
- 2.6 5. Revaluations and other value changes. A summary of these main conceptual differences is provided in Table 1 on the following page, and discussed further below.

³ The GFSM 2012 will be available, in draft form, during 2012.

Table 1 Summary of the Main Differences between GFS and IPSAS

Government Finance Statistics

IPSAS

Objectives

Evaluate economic impact: Government finance statistics are used to (a) analyze and evaluate the outcomes of fiscal policy options, (b) determine the impact on the economy, and (c) compare national and international outcomes. The GFS reporting framework was developed specifically for public sector input to national and international accounts, noting that a range of countries use GFS for their ex post and ex ante fiscal reporting.

Evaluate financial performance and position: General purpose financial statements are used to evaluate financial performance and financial position, hold management accountable, and inform decision making by users of the general purpose financial statements.

Reporting Entity

Institutional units and sectors: The statistical reporting unit is an institutional unit, defined as an entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities in its own name. The reporting entity may be an institutional unit or a group of institutional units. Control and the nature of economic activities determine consolidation and the scope of the reporting entity.

Economic entity and consolidation: The reporting unit for financial statements is an economic entity, defined as a group of entities that includes one or more controlled entities. Control is the main criterion that determines consolidation. Financial reporting focuses primarily on individual groups of controlled entities.

Recognition Criteria

The key difference relates to liabilities.

Economic events recognized: Government finance statistics recognize economic events on the accrual basis of recording when economic value is created, transformed, exchanged, transferred, or extinguished. On the other hand, on the cash basis of recording, flows are recorded when cash is received or disbursed. Some items recognized as provisions in financial reporting may not be recognized under statistical reporting. However, exposures such as explicit guarantees are disclosed as memorandum items.

Past events with probable outflows recognized: IPSASs recognize liabilities, including provisions, when

- a past economic event has taken place;
- the amount can be reliably estimated; and
- future outflows are probable.

If not recognized as a liability, the event may still be disclosed in the notes to the financial statements as a contingent liability.

Valuation (Measurement)

Current market prices: Current market prices are used for all flows, and stocks of assets/liabilities, but allowance is made for alternative valuations where an active market does not exist.

Fair value and cost: Fair value is used for marketable financial instruments. Either fair value or historic cost is used for other assets and liabilities. Where an entity reports an item using historic cost, IPSASs often encourage disclosure of fair value if there is a material difference between the reported cost and the item's fair value.

Revaluations and Other Value Changes

Record all revaluations and changes in volume in the Statement of Other Economic Flows: Separating all other economic flows is useful for fiscal analysis, given that these do not represent fiscal policy decisions directly within the control of government.

Realized and unrealized gains and losses: Some gains or losses due to revaluations or changes in volume of assets are reported in the Statement of Financial Performance, while others are reported directly in the Statement of Changes in Net Assets. Some other gains and losses are not reported at all

1. Objectives

- 2.7 GFS reporting guidelines and IPSASs have different objectives for the two sets of financial information produced. GFS reports are used to (a) analyze and evaluate fiscal policy options, (b) determine the impact on the economy, and (c) compare outcomes nationally and internationally. The focus is on evaluating the impact of the general government and public sector on the economy, and the influence of government on other sectors of the economy. The GFS reporting framework was developed specifically for public sector input to national and international accounts, noting that a range of countries adopt GFS reporting for their fiscal reporting. GPFSS, compiled in accordance with IPSASs, are used to evaluate financial performance and position, hold management accountable, and inform decision making.
- 2.8 Although the two sets of financial information necessary to meet these different objectives have many similarities, the different objectives do result in some fundamental differences on how and what information is reported. For example, in GFS reports, one distinction in transactions in financial assets and liabilities is whether the counterparty of the transactions is a resident or nonresident.⁴ In contrast, GPFSS will rather report these transactions according to whether they are current or noncurrent assets or liabilities.⁵

2. Reporting Entity

- 2.9 One of the fundamental differences between GFS reporting guidelines and IPSASs relates to the definition of the reporting entity and the process of consolidation (collectively often referred to as “identification of the reporting entity boundary”). Under GFS reporting guidelines, as described in Chapter 2 of the 2012 GFSM and in the 2008 SNA, Chapter 4, institutional units are aggregated and consolidated into statistical sectors and subsectors. The focus of statistical reporting is primarily on consolidated sectors and subsectors. Although it is theoretically possible to create GFS reports for individual institutional units, separate statistical reports for individual units are usually not disseminated.⁶ Each individual entity in the economy is analyzed with respect to its autonomy of decision making, to determine if it can be considered an institutional unit.
- 2.10 Those government-controlled units that are primarily engaged in nonmarket (including redistributive) activities are included within the “general government sector” (GGS). Although all resident government-controlled entities, including public corporations engaged in market activities, are included within the public sector, nonmarket activities determine the delineation of the GGS, as a distinct subsector within the public sector. The GGS does not include entities engaged in market activities. Where two units are both in the GGS, the consolidated position eliminates transactions and positions between the two units.

⁴ Other required classifications are the classification of instruments, institutional sectors of the counterparty, and maturity structure.

⁵ The distinction between current and noncurrent assets and liabilities in IPSAS is based on whether the asset/liability is expected to be liquidated in the next accounting period. In the GFS the current and capital distinction is mainly used to make a distinction between transfers of a recurrent nature and exceptional transfers.

⁶ The United Nations Fundamental Principles of Official Statistics states that individual data collected by statistical agencies for statistical compilation, whether they refer to natural or legal persons, are to be strictly confidential and used exclusively for statistical purposes. However, for government units, for reasons of fiscal transparency, this principle is not always adhered to. (Cfr.Reg. (European Commission) No.223/2009 Chapter V.)

- 2.11 In IPSASs, the “reporting entity” is a government or other public sector organization, program, or identifiable activity that prepares GPFRs.⁷ The reports may be prepared on either a compulsory or voluntary basis. A key characteristic of a reporting entity is that there are users who depend on GPFRs for information about the entity. A reporting entity may be a “group reporting entity.”
- 2.12 A group reporting entity consists of two or more separate entities that present GPFRs as if they are a single entity. A group reporting entity is identified where one entity has the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities. It may also be exposed to a financial burden or loss that may arise as a result of the activities of entities whose activities it has the authority and capacity to direct.⁸ If these conditions are met, then the entity is described as a “controlling entity,” with control defined according to the principle of exercisable power to govern the financial and operating policies of another entity.
- 2.13 IPSASs also have a requirement that a reporting entity provide segmental reporting (see IPSAS 18). A reporting entity provides disaggregated financial information about each of its segments. The information provided includes segment assets, liabilities, revenue, and expenses. Segments are usually defined either in terms of geographical regions or services.
- 2.14 The requirement to consolidate entities differs in IPSASs and GFS. Under IPSAS 6, *Consolidated and Separate Financial Statements*, consolidated financial statements are the financial statements of a group of entities presented as those of a single entity. This means that a controlling entity will consolidate the financial statements of all of its controlled entities, irrespective of whether they are (a) resident units, (b) market/nonmarket entities, or (c) the IPSAS equivalent of a market entity, i.e., a “government business enterprise” (GBE).⁹ This contrasts with the GGS consolidation approach, described above, where nonresident and market entities are not fully consolidated into the GGS.
- 2.15 Nevertheless, IPSASs provide for the disclosure of financial information about the GGS. IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, specifically sets aside the application of IPSAS 6, *Consolidated and Separate Financial Statements* while retaining the application of all other IPSASs. This allows an aggregate presentation, which can reconcile the statistical reporting boundary for the GGS with the IPSAS reporting boundary.

3. Recognition Criteria

- 2.16 GFS reporting guidelines and IPSASs both aim to recognize economic events in the period in which they occur. Neither GFS reporting guidelines nor IPSASs allow the application of precaution or prudence to justify the reporting of provisions that anticipate future possible events. GFS and IPSASs differ in their recognition criteria for certain liabilities, because GFS treats uncertainty about future economic outflows differently from IPSASs. The effect of this difference is that IPSASs require more items to be recognized as liabilities than does GFS.

⁷ Conceptual Framework Exposure Draft 1 (CF—ED1), *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Role, Authority, and Scope; Objectives and Users; Qualitative Characteristics; and Reporting Entity*, paragraphs 4.1–4.6.

⁸ Ibid, paragraphs 4.7–4.12.

⁹ A GBE is defined to be a public sector entity that (a) has the power to contract in its own name, (b) has been assigned the financial and operational authority to carry on a business, (c) sells goods and services in the normal course of its business to other entities at a profit or full cost recovery, and (d) is not reliant on continuing government funding to be a going concern. (See IPSAS 1, paragraph 7.) GBEs are not required to apply IPSASs. Instead they apply International Financial Reporting Standards (IFRSs) or the private sector accounting standards for their national jurisdiction.

- 2.17 In macroeconomic statistics, a liability is not recognized until a claim by the counterparty exists. Maintaining symmetry in the statistical system is a fundamental principle. Therefore, GFS guidance is that probable exposures such as contingencies and guarantees should be disclosed in memorandum items, until such time as these are called. Liabilities for government employee benefit payments and standardized guarantees schemes are not contingencies, but instead are recognized as liabilities.¹⁰ IPSASs require that where there is a present obligation and an outflow will probably occur, the amount should be estimated and, if it can be reliably estimated, should be recognized as a liability in the statement of financial position (balance sheet).
- 2.18 The key area of difference is that of “provisions,” which IPSASs define to be liabilities of uncertain timing or amount (see IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 18). Provisions include obligations for which there is no counterparty, for example, provisions for restructuring and environmental restoration. Provisions may also involve an estimate of economic outflow for a group of obligations (for example warranties), on the basis that it is probable that the entity will have to meet a claim by a proportion of the overall group.
- 2.19 This difference with respect to liability recognition will have consequential differences either for expense recognition or asset recognition. For example, recognition of a provision for restructuring will, under IPSASs, require recognition of a related expense, because there is no compensating increase in asset value. Recognition of a provision for eventual site restoration during construction of a landfill will, under IPSASs, be capitalized, adding to the overall investment in the asset. Under IPSASs, it is also possible for an increase or decrease in the amount of a provision to occur due to an improved estimate. An increase could result in expense recognition, while a decrease could result in revenue recognition. GFS would not recognize either these changes in assets/liabilities or the resulting revenue/expense until resources change hands.
- 2.20 GFS and IPSASs apply the same broad recognition criteria to assets, with the result that the same financial and nonfinancial assets are recognized. Therefore, revenue related to asset recognition is also reported at the same point. However, differences with respect to views about (a) valuation (measurement), and (b) where these valuation changes should be reported, mean that the amount of revenue reported under GFS and IPSASs could differ.

4. Valuation (Measurement) Bases

- 2.21 The valuation principles in GFS and IPSASs result in the majority of assets and liabilities being valued on the same basis, that is at current market prices. The exceptions are when IPSASs use historic cost, as described in more detail below. Both GFS and IPSASs allow proxies for current market price. For example depreciated replacement cost can be used as a proxy for the market price of specialized assets, if no market price information is available.¹¹

¹⁰ GFS do not recognize liabilities for promises to pay social security benefits in the future, but disclose these as memorandum items. Although there was no IPSAS applicable to accounting specifically for social benefit scheme entitlements at time of writing, such promises are also not recognized by IPSAS.

¹¹ Differences with respect to how current market values are determined can occur in practice, even where agreement appears to exist conceptually. In particular, the views of statisticians and financial accountants can differ on how best to derive current market values for long-lived assets, for example infrastructure assets, which have values related to service potential rather than cash flow and for which there is no active market.

- 2.22 The general valuation principle of GFS is to use current market prices for all assets, liabilities, and related value changes, i.e., for all stocks and flows.¹² As explained in Chapter 6 of the GFSM 2012, where an active market does not exist, the GFS reporting guidelines recommend the use of nominal values for financial instruments, and an estimate of the value of other assets/liabilities. These estimates could be based on (a) prices of similar products in similar markets, (b) the costs of production of similar assets at the reporting date, or (c) the discounted present value of expected future returns on the asset. (See also the GFSM 2012 for a full discussion of the valuation principles of the GFS.)
- 2.23 IPSASs allow the use of current values for many, but not all, assets, liabilities, and related value changes. IPSASs define “fair value” as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. This is usually similar to the basis used in the GFS. IPSASs also allow assets and liabilities to be valued at historic cost.
- 2.24 IPSASs require that most marketable financial instruments be measured at fair value. Non-marketable financial instruments are measured at historic cost¹³. Employee-related liabilities and long-term provisions other than financial instruments are measured at net present value, which is likely to approximate market price. PP&E, and intangible assets can be valued either at fair value or at depreciated historic cost. Inventory is valued at cost, with a requirement to reduce to net realizable value, if the inventory’s net realizable value falls below cost.¹⁴ In the majority of cases, investment properties are measured at fair value.¹⁵
- 2.25 Where an item is reported at its historic cost, IPSASs often encourage or require disclosure of fair value, if there is a material difference between the item’s historic cost and its fair value. For example, this is the case for PP&E and intangible assets. (In these two cases, the use of historic cost is optional under IPSASs. This means that governments can choose to value such assets at fair value and, if they also choose to value annually, then this should mean that, in practice, their measurement of these assets is aligned with GFS reporting guidelines.)
- 2.26 IPSASs require disclosure of the valuation basis for assets and liabilities. This means that IPSAS information makes clear where a current market price has not been used to value assets or liabilities. If historic cost has been used to value assets or liabilities, then the IPSAS source data will need to be adjusted from historic cost to current market price before it can be used for GFS. The adjustment will be straightforward where IPSASs already require disclosure of a market price valuation, as may be the case where fair value is materially different from cost.

¹² The main area where this is not the case is the treatment of financial instruments that are presumed to be non-marketable, such as loans. It is also possible that debt instruments may be measured for policy purposes on a “nominal” basis. (See the IMF’s *Public Sector Debt Statistics Guide for Compilers and Users*, (<http://www.tffs.org/PSDStoc.htm>) for further information on this.)

¹³ Financial liabilities (with some exceptions), and financial assets that are (a) held-to-maturity investments, (b) loans and receivables, or (c) investments in equity instruments that cannot be measured at fair value because fair value cannot be determined reliably, are measured at either cost or amortized cost, usually less impairment losses, (See IPSAS 29, Financial Instruments: Recognition and Measurement.)

¹⁴ Inventory is valued at the lower of cost and replacement cost, if it is held either for distribution at no charge or a nominal charge, or for consumption in the production process of goods to be distributed at no charge or for a nominal charge.

¹⁵ The only exceptions are investment properties for which a fair value is not reliably determinable on a continuing basis. (See IPSAS 16, paragraph 62.)

5. *Treatment of Revaluations and Other Value Changes*

- 2.27 GFS records all holding gains and losses (revaluations) and other changes in the volume of assets and liabilities in the Statement of Other Economic Flows. These flows are separated from transactions, so that transactions include only data for revenues, expenses, and the financial balance of government, which are useful for fiscal analysis. Other economic flows represent economic value gained or lost due to economic events that are not directly under the control of the government. It is therefore not directly the result of a fiscal policy decision.
- 2.28 IPSASs require the majority of revaluations and changes in value to be recorded in the Statement of Financial Performance. Gains and losses recorded in the Statement of Financial Performance are then included in the total net amount that flows from the Statement of Financial Performance into the Statement of Changes in Net Assets/Equity. As a result, the Statement of Changes in Net Assets/Equity reports the total impact of all recognized value changes. Some unrealized gains and losses are not allowed to be recorded in the Statement of Financial Performance and must, instead, be recorded directly in the Statement of Changes in Net Assets. The main items are foreign exchange gains and losses related to foreign subsidiaries, and revaluations of PP&E.
- 2.29 Traditionally the distinction between realized and unrealized gains/losses is generally viewed as the main difference between items recorded in the Statement of Financial Performance versus those excluded from this statement and, instead, only recorded in the Statement of Changes in Net Assets/Equity. The Statement of Financial Performance is viewed as generally showing realized gains/losses, while the Statement of Changes in Net Assets/Equity shows unrealized gains/losses. However IPSASs requires many unrealized value changes to be included in the Statement of Financial Performance. For example, value changes due to unrealized revaluations of employee liabilities or impairment reductions are included in the Statement of Financial Performance. The two main exceptions recorded in the Statement of Changes in Net Assets/Equity (foreign exchange fluctuations and revaluations of PP&E) are both unrealized, but they are also viewed as potentially obscuring an entity's financial performance, partly because they are outside of management's control, and partly because gains in one year may be reversed in subsequent years.

Presentation and Terminology Differences

- 2.30 Presentation and terminology differences between IPSASs and GFS reporting guidelines also exist. As a result, the GFS and IPSAS financial statements and disclosures look different, even though the information reported is largely the same. This subsection describes the main presentation and terminology differences between GFS guidance and IPSAS requirements.
- 2.31 The main presentation and terminology differences are as follows:
1. Different names for the IPSAS equivalents of the GFS statements;
 2. The types of classification structures included in the balance sheet (statement of financial position), operating statement (statement of financial performance), and, cash flow statement for the two reporting frameworks differ, which, in some cases, also necessitate differences in terminology;
 3. GFS sets out a minimum level of detail for a comprehensive list of standard line items that all entities must report in their GFS financial statements, IPSASs establish a minimum set of standard line items, while providing principles and guidance on further line items that a reporting entity may need to report;
 4. The way in which additional information about the data is disclosed differs in the two frameworks; and

5. The definition and/or value of key statement totals (such as total assets, net worth, and total revenue), may differ.

2.32 Each of these main differences is discussed below.

1. *Different Names for Statements*

- 2.33 The IPSAS equivalents to the GFS statements have different names (see IPSAS 1, *Presentation of Financial Statements*). The IPSAS equivalent to the GFS “Balance Sheet” is a “Statement of Financial Position,” although “Balance Sheet” or “Statement of Assets and Liabilities” are acceptable alternatives under IPSASs. The IPSAS equivalent to the GFS “Statement of Government Operations” is a “Statement of Financial Performance,” although “Income Statement,” “Statement of Revenues and Expenses,” “Operating Statement,” or “Profit and Loss Statement” are acceptable alternatives under IPSASs. The GFS “Statement of Other Economic Flows” is partly captured in the IPSAS “Statement of Changes in Net Assets.”¹⁶ IPSASs also refer to this as the “Statement of Movements in Equity.” The IPSAS equivalent to the GFS “Statement of Sources and Uses of Cash” is called a “Cash Flow Statement.”
- 2.34 IPSAS financial statements also include a “Comparison of Budget and Actual Amounts,” for which there is no GFS equivalent. This information must be provided by all entities that publish an approved budget (see IPSAS 1 and IPSAS 24, *Presentation of Budget Information in Financial Statements*). It is presented either as a separate financial statement or as additional columns in the financial statements. A separate statement must be used when the budget is on a different basis from the actual reported results. For example, if the budget is prepared on a cash basis, while the results reported in financial statements are prepared on an accrual basis, the Comparison of Budget and Actual Amounts Statement is separate. If they are prepared on the same basis, the budgeted amounts can be fully integrated into the financial statements through the use of additional columns, and a separate statement is not necessary.

2. *Classification Structures*

- 2.35 The GFS reporting guidelines classify and group items in its statements differently from IPSASs. At the highest level, the terminology used for classifications are the same, for example, assets, liabilities, revenue, and expenses. However, within these items there are conceptual differences and differences in the structure of subclassifications. The differences reflect the different objectives of the two information sets. For example, IPSASs require that assets and liabilities be presented as current or noncurrent, or that a liquidity structure be followed. This is important for assessing an entity’s liquidity and solvency. GFS does not make this distinction in its core statements, but allows a supplementary table on the maturity structure of government’s financial assets and liabilities to be compiled. However, GFS requires that assets be presented as financial or non-financial, which IPSASs do not require.
- 2.36 For GFS, standardized economic and functional classifications serve the specific objectives of (a) comparability of the accounts of various government entities and sub-sectors, and (b) international comparability. These classifications are devised to evaluate the impact of the general government and public sector on the economy as a whole, and to identify government’s involvement with other sectors. For example, financial assets and liabilities are classified and presented according to whether they are domestic or foreign instruments, to allow an assessment of government’s

¹⁶ Some other economic flows recorded in the GFS Statement of Other Economic Flows are sourced from the IPSAS Statement of Financial Performance.

interaction with the rest of the world. Such a classification is important because fiscal policy decisions on domestic versus foreign instruments are based on different criteria, and also because this classification allows the derivation of a government's impact on the balance of payments of the country. IPSASs do not require this distinction. The standardized presentation also allows the calculation and comparison of analytical measures of fiscal policy such as the primary balance, tax incidence ratio, etc.

- 2.37 Counterparty information is collected for both GFS and IPSAS reporting. The GFS economic classification requires counterparty information for flows and stocks (balance sheet) to be reported as standard line items. These identify items for consolidation, and establish the linkages with other sectors of the economy. IPSASs generally do not require counterparty information to be reported on the face of the financial statements or their related notes. IPSASs require counterparty information to be collected (a) by a parent entity to identify intra-entity transactions, so that the entity can eliminate those for preparation of consolidated financial statements, and (b) by a subsidiary to identify transactions with the parent entity and other entities that are under common control, so that information about those transaction can be disclosed in the notes. Counterpart information can also be important for risk-related note disclosures and related party disclosures.

3. Minimum Level of Detail

- 2.38 GFS requires a minimum level of detail to be reported according to a comprehensive list of standard items. The level of detail is presented in standardized items to facilitate consistency over time, comparability, and consolidation of data across units and sectors.
- 2.39 IPSASs also require some minimum items to be reported. However presentation is less standardized than for GFS reporting, with preparers required to make decisions about what items are shown, with reference to the purposes and understandability of statements, information relevance, and the principle that material items should be presented separately in the financial statements (see IPSAS 1).

4. Disclosure of Additional Information

- 2.40 To facilitate the correct interpretation of their GFS, compilers are encouraged to present information on the sources, methods, and procedures of the statistics as metadata or footnotes to statistical reports. In particular, information that may have an impact on assessing the statistics should be disclosed in the statistical reports. GFS also uses standard categories of memorandum items to report on items that are not reported in the body of the statements.
- 2.41 IPSASs require that information that may have a significant impact for users be disclosed in notes to the financial statements. Notes include a summary of significant accounting policies. They also include further detailed information about individual items reported on the face of a statement, for example, (a) a breakdown of PP&E into classes, (b) information about items that are not recognized but nonetheless important (for example, contingencies), and (c) risk information related to financial instruments.
- 2.42 GFS information is usually presented as a time series of data, so comparative data for multiple years are presented at the same time. The periodicity of these data could be monthly, quarterly, or annually. IPSAS only requires annual reporting, but allows more frequent reporting. Consistent GFS time series may be very long, decades for some countries. Following from this, corrections to data will be required to be made in the period in which mistakes occurred, irrespective of when the need for such corrections is determined. Financial statements presented according to IPSASs require

comparative information about one previous year. IPSAS requirements with respect to adjustment of previous years' figures for policy changes and errors are open about the number of prior years affected. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* states that changes should be made to "each prior period presented," without stipulating the number of prior periods

5. Mapping from IPSAS Financial Statement Totals to GFS Totals

i. Total Assets and Total Liabilities

2.43 Some broad classification differences exist between GFS and IPSASs. GFS classifies assets and liabilities in terms of whether they are financial or nonfinancial. IPSASs do not require assets and liabilities to be grouped in these terms, nor do they require summary totals for financial and nonfinancial assets. However they do require financial and nonfinancial assets and liabilities to be separately disclosed, which means that there is sufficient information in an IPSAS statement of financial position (balance sheet) to determine totals for financial and nonfinancial assets and liabilities. Furthermore, GFS classifies financial assets and liabilities into domestic and foreign. IPSASs do not use this classification. GFS also classifies assets and liabilities according to standardized GFS characteristics/purposes, which can differ from the classifications required by IPSASs. For example, in IPSASs, the classification of property is determined by whether or not it is an investment property, while GFS distinguishes property according to whether it is a produced/nonproduced asset and whether it is a dwelling, other building, other structure, or land improvement. Similarly, the IPSAS classifications of (a) financial instruments into whether they are for trade or to be held until maturity, (b) whether liabilities are employee liabilities, and, (c) provisions relating to environmental restoration, all differ from the GFS classification. Classification differences where IPSASs do not require classifications that GFS does, for example, GFS's classifications in terms of foreign/domestic, can be managed through CoA design. This is discussed in Section 6 of this CP.

ii. Net Worth

2.44 The GFS concept of "net worth" plus "equity" is equal to IPSASs' net assets/equity:

- In the GFS, net worth for a specific period is defined as total assets less total liabilities. The balance sheet opening net worth + operating balance + changes in all assets and liabilities due to other economic flows = balance sheet closing net worth.
- According to IPSASs, net assets/equity is calculated as the opening net assets/equity + surplus/deficit + items shown directly on changes in equity statement = closing net assets/equity. Net assets/equity is also equal to the net of all assets less liabilities, excluding equity.

2.45 These differences in the calculation of the net balancing item primarily result from the differences between how GFS and IPSASs allocate items to their respective statements (GFS showing other economic flows separately). In addition, it should be noted that, in the GFS net worth concept, equity is treated symmetrically as part of financial assets and liabilities. In contrast, the IPSAS net assets/equity concept includes equity-liabilities, but treats equity-assets as part of financial assets.

2.46 In addition to these presentational differences, the values of these items can also differ due to valuation and recognition differences.

iii. Revenue and Expense

2.47 Although the GFS and IPSAS concepts of revenue and expenses are different, they can be reconciled as follows:

GFS (Revenue + Other Economic Inflows) = IPSAS (Revenue + economic inflows recognized directly in Statement of Changes in Equity); and

GFS (Expenses + Other Economic Outflows) = IPSAS (Expenses + outflows recognized directly in Statement of Changes in Equity)

2.48 IPSASs refer to materiality as a classification criterion for revenue and expenses. In this context, in addition to the economic classification (as shown), the GFSM and ESA also have a Classification of Functions of Government (COFOG), which can be found in a similar form in IPSAS 22, *Disclosure of Financial Information about the General Government Sector*.

2.49 Under IPSASs, cash flows resulting from acquisitions or disposals of assets are part of the Cash Flow Statement. Any gain or loss on disposal is a realized holding gain or loss, and as such is shown as part of surplus/deficit that is recognized in the Statement of Financial Performance.

iv. Consumption of Fixed Capital (Assets)

2.50 In theory, the GFS concept of consumption of fixed capital (CFC) differs from the IPSAS concept of “depreciation.” The IPSAS concept of “depreciation” involves allocating changes in an asset’s historic cost or current value to the reporting period in which the asset is used, as a measure of the asset’s consumption.

2.51 In practice, depreciation would approximate GFS CFC, if similar valuation methods and service lives are assumed for assets, and asset values are close to replacement values through revaluations. Where IPSAS asset values are based on historic cost values, depreciation would usually represent an underestimate of CFC.

v. Operating Balance

2.52 The GFS net operating balance is calculated in the same way as the IPSAS “surplus/deficit.” Both are calculated as revenue less expense. However, the value of these two balancing items is likely to differ, because there may be differences between items included in the GFS revenue and expense and those included in IPSAS revenue and expense. This difference can be mainly attributed to the conceptual difference in the treatment of other economic flows.

Specific Matter for Comment 1

With respect to Section 2’s description of differences between IPSASs and GFS reporting guidelines:

(a) Do you agree with the description? If not, why not?

(b) Are there further differences that should be added to this high-level description?

3. Alignment Progress and Opportunities

3.1 Significant progress has been made with resolving differences between IPSASs and GFS reporting guidelines. The 2005 IPSASB research report included a detailed analysis of the then differences between the two frameworks, and recommendations for their resolution. Table 2 below provides a summary of how issues have been resolved in the intervening period, or the further action now proposed. It recategorizes the issues in the 2005 report into the following four groups:

Category A Issue resolved

Category B Scope for increasing alignment through changes to IPSASs

Category C Scope for increasing alignment through changes to GFS reporting guidelines

Category D Differences needing to be managed through systems design, data collection, and/or mapping

3.2 Issues have been included in Category A if they have either been completely resolved or there is an option in IPSASs which if adopted, would achieve alignment. Category D covers differences that are expected to continue and will need to be managed. These arise from underlying conceptual differences that cannot be resolved through changes to either IPSASs or GFS reporting guidelines (for example the scope of the reporting entity difference).

3.3 For each issue, Appendix B provides further detail supporting the summary in Table 2. Sections 4 to 6 of this CP consider the proposed further actions in more detail.

Table 2 Alignment Issues—Resolution and Proposals

A. Issue resolved		
	<i>Issue</i>	<i>Resolution</i>
A1	Scope of the reporting entity and sector reporting	IPSAS 22, <i>Disclosure of Financial Information About the General Government Sector</i> (a) encourages disclosure of information about the general government sector, (b) specifies rules when a government elects to make such disclosures; and, (c) requires a government's investment in public corporations to be recognized at the carrying amount of investees' net assets. (Also see B1 and D1.)
A2	Investments in unquoted shares—measurement	IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i> requires fair value where there is a reliable measure, and if not, cost. In practice, fair value is used in the majority of cases. The 2008 SNA adopts a "current market price" (fair value) hierarchy across all assets.
A3	Employee stock options	2008 SNA, (paragraph 11.125) clarified employee stock options guidance, so that there is no difference between IPSAS and the SNA.

	<i>Issue</i>	<i>Resolution</i>
A4	Non cash-generating assets, including heritage assets—measurement and recognition	SNA has aligned guidance on the valuation of non cash-generating assets. The revaluation options in IPSAS 17, <i>Property, Plant & Equipment</i> and IPSAS 31, <i>Intangible Assets</i> are aligned with the SNA's use of current market price. IPSAS 17 and IPSAS 31 options to recognize heritage assets provide alignment with SNA recognition of heritage assets.
A5	Borrowing costs	IPSAS 5, <i>Borrowing Costs</i> , has the SNA approach of expensing borrowing costs as its “bench mark treatment.”
A6	Defense weapons—capitalization and classification	SNA changes have implemented recommendations on capitalization and classification, from the 2005 report. More guidance is needed to support alignment, and measurement differences may still remain for long-lived, specialized assets. These measurement differences are not specific to defense weapons. (Also see Issues B5, B6, and C1.)
A7	Recognition and derecognition of financial instruments	IPSAS 29's recognition and derecognition requirements mirror those of IAS 39. IPSAS 28, <i>Financial Instruments: Presentation</i> adopted the requirements of the former IPSAS 15, <i>Financial Instruments: Disclosure and Presentation</i> to offsetting. The 2008 SNA requirements in respect of debt defeasance have not changed, but have been elaborated. The IMF's Public Sector Debt Statistics Guide and Eurostat's Manual on Government Deficit and Debt provide detailed clarifications on debt assumptions.
A8	Costs associated with R&D and other intangible assets	The IPSASB issued IPSAS 31 in 2010. The 2008 SNA revisions are aligned with the business accounting standard (IAS 38, <i>Intangible Assets</i>) with which IPSAS 31 is converged. (Also see C6.)
B. Scope for increasing alignment through changes to IPSASs (<i>Discussed further in Section 4.</i>)		
	<i>Issue</i>	<i>Proposal</i>
B1	Reporting entity definition	Align the definition of “control” in IPSAS 6 with the SNA definition. Included in IPSASs 6–8 revision project.
B2	Currency on issue/seigniorage	Develop topic-specific coverage. Included in the IPSAS public sector-specific financial instruments project.
B3	Subscriptions to international organizations	
B4	Inventory measurement	SNA requires market values. IPSAS 12, <i>Inventories</i> , generally requires “the lower of cost and net realizable value.” Included in the IPSASB's 2013 Annual Improvements Project.

	Issue	Proposal
B5	Defense weapons—capitalization and classification	More detailed guidance is needed. Included in the IPSASB's 2013 Annual Improvements Project.
B6	Measurement of assets, liabilities and net assets/equity	Phase 3 of the IPSASB's Conceptual Framework may provide increased scope for the use of current value measurement within IPSASs. Initiate discussions with key groups to improve the consistency of valuation and measurement guidance.
B7	Transaction costs: Costs of disposing of nonfinancial and financial assets	SNA expenses all asset disposal costs related to financial assets, while IPSAS requires such costs to be expensed in some cases, and capitalized in others. IPSAS changes could address differences.
B8	Financial statements: presentation, including classification, and aggregates	Subject to development of the IPSASB Conceptual Framework, there may be scope to support a "comprehensive income" approach to presenting income. Consider possible amendment to IPSAS 2, <i>Cash Flow Statements</i> .
B9	Investments in unquoted shares: Presentation of remeasurement gains/losses	Scope may exist to resolve, either through IPSAS 1 changes or through a comprehensive income approach.
C. Scope for increasing alignment through changes to public sector GFS reporting guidelines (<i>Discussed further in Section 5.</i>)		
C1	Measurement of assets, liabilities, and net assets/equity	Initiate discussions with key groups to improve measurement consistency, then address through guidance at the detailed level.
C2	Extractive industries exploration and evaluation; development and production	Clarify statistical guidance. For example, GFSM 2012 is expected to clarify some applicable treatment, based on the 2008 SNA treatment of contract leases and licenses.
C3	Decommissioning/restoration costs	The 2008 SNA (paragraphs 10.51-10.55) already includes decommissioning/restoration costs as costs incurred on acquisition and disposal of assets. Revisions to related guidelines to reflect the 2008 SNA with supporting detail consistent with IPSAS 17, would achieve alignment.
C4	Public-private partnerships (PPPs) (e.g., BOOT schemes)	The SNA has this issue on its research agenda. There may be scope to align with the newly released IPSAS on service concessions, IPSAS 32, <i>Service Concession Arrangements: Grantor</i> .
C5	"Subscriptions" to international organizations	Eurostat has just completed guidance on subscriptions to Multilateral Development Banks in the most recent revisions to its manual on Government Deficit and Debt. After the IPSASB has addressed this topic (see B3 above), the statistical reporting community could consider alignment with the approach developed, if different.

	<i>Issue</i>	<i>Proposal</i>
C6	Costs associated with R&D and other intangible assets	Revisions to statistical guidance, for example further guidance in the GFSM 2012, could address possible differences in practice.
C7	Low-interest and interest-free loans	The treatment of concessionary loans is on the research agenda of the SNA, and Eurostat is trying to resolve this issue.
D. Difference needing to be managed through system design, data collection, and/or mapping (<i>Discussed further in Section 6.</i>)		
D1	Reporting entity definition	The basic conceptual difference remains and will need to be managed, through identification of data that relates to the GGS.
D2	Recognition criteria	Management of differences generally involves subtracting IPSAS values to reach an SNA result. Additional disclosures in IPSAS and/or CoA design facilitate production of GFS reports from IPSAS data.
D3	Measurement of assets, liabilities and net assets/equity, particularly fair value versus historic cost	In the short to medium term, the IPSAS use of historic cost to measure some categories of assets is expected to remain, and will need to be managed. Choice of fair value options within IPSASs, and the use of disclosed fair values, where IPSAS requires such disclosures or valuations specifically for statistical reporting, are ways to address this difference.
D4	Financial statements: presentation, including classification, and aggregates	There is scope to manage presentation differences through mapping amounts from the IPSAS financial statements to the appropriate SNA statements. AASB 1049 provides a way to manage cash flow statement differences.
D5	Provisions arising from constructive obligations	Additional disclosures in IPSASs and/or CoA design facilitate subtraction of amounts for production of SNA reports.
D6	Prior period adjustments/back casting—correction of errors	Management of this issue is required to provide the time series data that GFS needs. For example, the Australian approach for a change in accounting policy is that the change will be recognized following GAAP, with the statistical accountants then applying back casting through the time series, for the national accounts.
D7	Nonperforming loans,	Difference expected to remain, and will need to be managed.
D8	Biological assets	To facilitate management of the above classification difference, IPSAS 27, <i>Agriculture</i> requires disclosure of bearer and consumable biological assets in the notes to the statements (IPSAS 27 paragraph 39), so that an entity can reclassify its consumable biological assets as inventory when preparing its statistical report.

	<i>Issue</i>	<i>Proposal</i>
D9	Net assets/equity	2008 SNA continues to treat equity as a liability. This difference expected to remain, and will need to be managed.
D10	Contributions from owners for commercial government operations	This difference expected to remain, and will need to be managed. IPSASs and SNA agree conceptually on capital injections, but IPSASs make identification by reference to legal description. SNA focuses on economic substance.
D11	Transactions between the Central Bank and government entities.	Complexities in terms of (a) transactions between the Central Bank, the national government, and other government entities, and (b) a wider set of issues related to the Central Bank, will need to be identified and appropriately addressed.

Specific Matter for Comment 2

With respect to Table 2's summary of alignment progress and the supporting detail in Appendix B:

- (a) Do you agree that the issues categorized as resolved (Category A in Table 2) are indeed resolved? If not, why not?
- (b) Are there further alignment issues that should be added to this list? If so, why?

4. Increasing Alignment Through Changes to IPSASs

4.1 As explained in Section 1, the IPSASB has already dedicated resources to supporting increased alignment with statistical reporting. One resulting product was IPSAS 22, *Disclosure of Information About the General Government Sector* which is focused on GGS disclosures. Other ways that the IPSASB can support governments' production of statistical information are set out below:

- Recognition and measurement requirements: Change the requirements in existing IPSASs to further align them with GFS reporting guidelines.
- Disclosures: Require additional disclosures in IPSASs, which facilitate production of statistical information, while the fundamental requirement remains unaligned. For example, additional IPSAS disclosures can support the management of recognition and measurement differences. If IPSASs have recognized items that SNA does not recognize (for example, certain types of provisions), then disclosure of those amounts in the notes can help their subtraction in order to arrive at the SNA information.
- Guidance: Provide guidance to promote alignment in (a) IPSASs, (b) Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*, and/or (c) on the IPSASB's website.

4.2 The first two options are considered together below in terms of (a) changes already included in the IPSASB work program as a result of this project, and (b) potential changes that could be added to the work program at an appropriate future time. The provision of guidance on options to achieve alignment is then considered, followed by potential revisions to IPSAS 22.

4.3 An introduction to issues related to IPSAS and GFS treatments of PP&E is then provided.

Changes Already Included in the IPSASB's Work Plan

4.4 Category B in Table 2 identifies the IPSAS/SNA differences that the Task Force considers capable of resolution through changes to IPSASs. The IPSAS changes that have already been included in the IPSASB's work plan, as part of other projects, are described below.

Reporting Entity Definition (Issue B1)

4.5 The basic conceptual difference between the two different definitions of a reporting entity will always remain. However there appears to be scope to align the definition of "control" in IPSAS 6 with the SNA definition. The IPSASB has approved a project, for its current work plan, to revise IPSAS 6, Consolidated and Separate Financial Statements, IPSAS 7, Investments in Associates, and IPSAS 8, Interests in Joint Ventures. This change will be considered as part of that project.

Currency on Issue, Seigniorage (Issue B2)

4.6 The IPSASB has discussed development of guidance on this topic (treated as a public sector-specific financial instrument) but the timing is unknown. There is scope to resolve this issue through IPSAS changes, and it will be considered as part of an IPSASB project on public sector-specific financial instruments.

Subscriptions to International Organizations (Issue B3)

4.7 The SNA treatment has moved to an accrual basis, which brings it closer to IPSAS generally. But IPSAS does not specify the treatment of different types of subscriptions. The 2008 SNA guidance

indicates that transactions with international and supranational organizations, including membership dues and subscription fees payable to international organizations, may not be treated as transfers, but as payments for a service, recorded on an accrual basis. Exceptionally, and when there is a possibility (even if unlikely), of repayment of the full amount, the payment may be represented as a financial asset. Similar guidance in the updated GFS reporting guidelines will clarify that, depending on their nature, “subscriptions” to international nonmonetary organizations could give rise to expenses. Eurostat has just completed guidance on subscriptions to Multilateral Development Banks in its Manual on Government Deficit and Debt. The guidance calls for recording as expenditure all those subscriptions to loan facilities that make concessionary loans. The IPSASB will include subscriptions to international organizations as part of its planned project on public sector-specific financial instruments.

Inventory Measurement (Issue B4)

- 4.8 SNA requires market values for inventory. IPSAS 12, *Inventories*, generally requires “the lower of cost and net realizable value.” (The rule is “the lower of cost and net realizable value,” except in certain circumstances where it is the lower of cost and current replacement cost.) In practice, IPSAS 12 means that inventory will most commonly be measured at cost, because cost is usually the lower value. A revision to either (a) allow the option of reporting inventories at net realizable value alignment; or (b) require note disclosure of net realizable value, would support alignment in this area or, in the second case, facilitate management of the difference. This issue will be included in the IPSASB’s 2013 Annual Improvements Project

Defense Weapons—Capitalization and Classification (Issue B5)

- 4.9 IPSAS requirements and GFS reporting guidelines are aligned. But practices can vary due to lack of clarity about how to apply the different requirements and guidance. IPSAS 17, *Property, Plant and Equipment* should include more detailed guidance on (a) when defense weapons should be classified as PP&E and when they should be classified as inventory; and, (b) when defense items should be capitalized rather than expensed. This issue will be included in the IPSASB’s 2013 Annual Improvements Project.

Potential Future IPSAS Changes

- 4.10 There are several IPSAS changes that may be possible, depending on the positions finally adopted in the Conceptual Framework Project. If these are favorable in terms of increasing alignment, then it may be possible to include the changes in the IPSASB’s future work plan.

Measurement of Assets, Liabilities, and Net Assets/Equity (Issues B6 and B7)

- 4.11 The SNA has a comprehensive requirement for fair value (called “current market value”), while measurement guidance in IPSASs allows both current values and historic cost. IPSAS changes since the 2005 Research Report have resulted in increased scope for entities to use fair value or use IPSAS-required disclosures to manage this difference. Where an IPSAS does not require fair value, but allows entities to choose to use fair value, alignment is achieved at the standard-setting level. Where an IPSAS requires disclosure of fair value in the notes, while requiring an entity to report using historic cost, the fair value information that the GFS requires is therefore available, even though the reported amounts in the IPSAS financial statements will be different from those in the statistical reports. In some situations, IPSAS also treats transaction costs differently from SNA.

- 4.12 Phase 3 of the IPSASB's Conceptual Framework, where measurement concepts are being considered, could result in a more comprehensive IPSAS approach to fair value, depending on the IPSASB's conclusions with respect to measurement concepts. An exposure draft (ED) is being developed and is expected to be issued for comment in late 2012. The list of measurement bases that will be addressed in the ED are historical cost, market values, fair value, replacement cost, value in use, and net selling price.
- 4.13 There is also scope to improve the consistency of approaches to current value measurement, and the related guidance. For example, discussions on measurement/valuation between the IPSASB, the International Valuation Standards Council (IVSC), and the statistical community could be initiated in order to develop a comprehensive, agreed-upon description of acceptable public sector valuation bases. The resulting description and recommendations could be used to improve the way that measurement is treated in the IPSASs and in the measurement guidance in Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*.

View 1:

Discussions should be initiated between the IPSASB, the International Valuation Standards Council and members of the statistical community to develop a comprehensive, agreed-upon description of acceptable public sector valuation bases.

Financial Statement Presentation, Including Remeasurement Gains and Losses (Issues B8 and B9)

- 4.14 There are two types of presentation differences:
- (a) Statement location: Presentation of reported amounts in different financial statements. (For example, IPSAS and SNA present value changes due to remeasurement of investments in unquoted shares in different statements.)
 - (b) Aggregates in statements:¹⁷ Presentation of aggregates that are either (a) defined differently, or (b) have no equivalent, in the other reporting system. (For example, IPSAS and GSF differ on the notion of "cash surplus/deficit" in the Statement of Cash Flows.)
- 4.15 Depending on the outcome of Phase 4 of the IPSASB's Conceptual Framework Project, resolution of financial performance reporting differences may be possible in the longer term, if the IPSASB decides to take a "comprehensive income" approach to presenting income. To address the cash surplus/deficit difference described above, IPSAS 2, *Cash Flow Statements*, could include an option to provide present cash flows according to the GFS presentation. These two changes would be part of medium to longer term projects, following completion of the IPSASB's Conceptual Framework Project.

¹⁷ Differences in aggregates can also be a consequence of recognition or classification differences. (For example, the GFSM includes notional cash flows such as finance leases as expenditures in the cash flow statement. These are not reported as cash flows under IPSAS.) These differences change the overall aggregates reported, but are not classified as presentation differences.

View 2:

The IPSASB should consider including the following projects on its medium to longer term work plan:

- (a) A “comprehensive income” approach to presenting income, and
- (b) A revision to IPSAS 2, *Cash Flow Statements*, to include an option to present cash flows in accordance with the GFS framework.

Choice of Options to Achieve Alignment

- 4.16 A number of current IPSASs include options which, if selected, would allow alignment with public sector GFS reporting guidelines for each affected policy area. For example, IPSAS 17 allows recognition of heritage assets, and if entities choose this option, then their reporting will be aligned with GFS reporting guidelines as it applies to heritage asset recognition. However this potential benefit is not identified in any of those individual standards, nor is there either (a) a requirement, or (b) encouragement to select aligned options when choosing accounting policies within IPSAS 3, *Accounting Policies, Changes of Accounting Estimates and Errors*.
- 4.17 Reporting entities should consider statistical reporting needs when they adopt IPSASs. By choosing GFS-aligned policy options during IPSAS adoption, entities will facilitate production of high-quality and timely data for inclusion in their GFS reports. Guidance that highlights these options would support alignment. Guidance could be provided in the IPSASB’s Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities* (Study 14). Study 14 aims to help public sector entities to migrate to the accrual basis of accounting, in accordance with IPSASs. It includes a chapter on IPSAS 22, which provides a brief overview of IPSAS 22’s contents. Study 14 could be revised to include an additional chapter that describes (a) the benefits of alignment between an entity’s financial reporting data with GFS data, (b) GFS-aligned IPSAS options; and, (c) chart of accounts guidance to facilitate generation of GFS data.
- 4.18 IPSAS 22 could also potentially include “application guidance” on the selection of IPSAS options that are aligned with GFS reporting guidelines. Such guidance would need to link to the existing encouragement in the main body of IPSAS 22. (Alternatively, advice could be provided through “implementation guidance,” which would not form part of IPSAS 22, but would still require an amendment to IPSAS 22). An argument against providing such guidance in IPSAS 22 is that it would not fit with its existing focus as a disclosure standard. (The possibility of revising IPSAS 22 to include guidance on aligned options is listed below under IPSAS 22 revisions.)
- 4.19 The IPSASB is also developing an IPSAS to address the first-time adoption of IPSASs. The objective of that IPSAS is to provide a suitable starting point for accounting in accordance with accrual basis IPSASs. The First Time Adoption IPSAS is therefore not expected to include detailed guidance with respect to GFS-aligned policy options. However, it could refer to that guidance.

View 3:

The IPSASB should consider amending Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*, to include a chapter on options to achieve alignment with GFS reporting guidelines.

Potential Revisions to IPSAS 22

Update of terminology/cross references

- 4.20 IPSAS 22 was developed to support governments' GFS reporting. Given the extent of developments since 2005, one of the project aims was to consider whether IPSAS 22 itself needs to be updated or, revised in some way. IPSAS 22, in its current form, refers to SNA 93, GFSM 2001, and ESA 95. The SNA has been updated to 2008 SNA. Revisions to the ESA and GFSM are also expected to be approved during 2012. At a minimum therefore, the cross references in IPSAS 22 need to be updated. IPSAS 22's implementation guidance illustrates GGS disclosures in IPSAS financial statements, and may also require revisions consequential upon changes to other IPSASs.

Other Possible IPSAS 22 Revisions

- 4.21 Other possible revisions to IPSAS 22 for consideration are set out below:
- (a) Include guidance on IPSAS options that are aligned with GFS reporting guidelines;
 - (b) Amend the IPSAS 22 requirement to list significant controlled entities to instead allow a cross reference to a register of GGS entities provided by the applicable statistical body;
 - (c) Include an illustrative explanation of the relationship between GFS information and IPSAS information in an appendix to IPSAS 22; and
 - (d) Include GFS-aligned illustrative financial statements in an appendix to IPSAS 22 and/or guidance on mapping from IPSAS totals to key GFS totals.
 - (e) Extend the existing treatment of reconciliations to require reconciliations, but allow them to be numerical, narrative, or graphical in form;
- 4.22 With respect to (b) above, IPSAS 22 requires a list of significant controlled entities to be disclosed (see paragraphs 40–42). Identification of GGS entities involves challenges, including clarification of (a) those entities that meet the GGS definition of GBEs (excluded from GGS), and (b) those that meet the GGS concept of a nonmarket entity (included in GGS), which focuses on an entity undertaking nonmarket activities, rather than operating from a not-for-profit perspective. Eurostat now requires governments to publish a register of GGS bodies. A link to such a statistical register, when available, could be a more reliable way to achieve the same result as that intended by the present IPSAS 22 requirement, than the present requirement to disclose a list of significant GGS entities.
- 4.23 Points (c) and (d) above relate to support for financial statements presentation alignment. A further approach to support such alignment, outside of IPSAS 22, would be to revise IPSAS 1 and IPSAS 2. Those two standards could be revised to include GFS-aligned presentation as an alternative presentation option for governments that prepare whole of government accounts.

View 4:

The IPSASB should consider:

- (a) Including guidance on GFS alignment options in: (i) IPSAS 22, *Disclosure of Financial Information About the General Government Sector*, and/or (ii) individual IPSASs that include a GFS-aligned option; and
- (b) Making other changes to IPSAS 22, depending on the outcome of constituents' responses to the Views in this CP.

Making IPSAS 22 Mandatory

- 4.24 Making IPSAS 22 mandatory would encourage GFS source data improvements. Governments' financial performance can only be directly compared through GGS information, because only GGS is defined on a comparable basis across different countries. But GFS reports and GPFRs have different objectives, and arguably a mandatory requirement aimed at supporting GFS reporting would be appropriate. Alternatively, it could be argued that GGS reporting is similar to reporting on a particular sector. Some GPFR users need GGS financial information for decision making and accountability. But such information is only applicable for those governments that produce whole of government reports on a national basis. If IPSAS 22 became mandatory, to which reporting entities would it apply?

Integrated Approach to Financial Statements and GFS Reports—Australia's AASB 1049

- 4.25 Another way to support alignment is to take an "integrated approach," similar to that taken in Australia, and embodied in AASB 1049, *Whole of Government and General Government Sector Financial Reporting*. This would mean withdrawing IPSAS 22, and replacing it with an IPSAS for application to whole of government (WoG) financial statements and GGS financial reports. The new IPSAS would establish the GGS as a separate reporting entity. It would then establish IPSAS reporting requirements applicable to the GGS reporting entity. The IPSAS would include (a) GFS consistent presentation requirements applicable to GGS financial reports and the WoG financial statements, (b) identification of GFS aligned options in other IPSASs applicable to GGS financial reports and the WoG financial statements; and (c) specification of the entities to be consolidated in the GGS financial statements, and the consequential accounting for investments in those statements.
- 4.26 That approach ensures that there is a high degree of overlap for information reported in the GGS financial reports and the WoG financial statements, although the reports remain different and separate, thereby reflecting their different objectives. The Australian development of an integrated approach, as an illustrative example, is described on the following page.
- 4.27 Feedback from constituents is needed on the two options described: (a) making IPSAS 22 mandatory; and/or, (b) replacing IPSAS 22 with an IPSAS that takes an integrated (AASB 1049-style) approach to aligning IPSAS requirements with GFS reporting needs.

Specific Matter for Comment 3 (See paragraphs 4.24 to 4.27, and page 32)

Do you agree with either of the following possible IPSASB actions?

- (a) The IPSASB should make IPSAS 22, *Disclosure of Information About the General Government Sector* mandatory; or
- (b) The IPSASB should replace IPSAS 22 with a new IPSAS that introduces an integrated (AASB 1049-style) approach to whole of government financial statements and GGS reports.

AASB 1049, *Whole of Government and General Government Sector Financial Reporting*

In Australia, separate application of generally accepted accounting practice (GAAP) requirements and GFS requirements was viewed by some significant users as causing confusion, because two sets of accrual-based financial statements appeared in governments' reports, reporting different results for the same public sector entity. Australia's Financial Reporting Council asked the Australian Accounting Standards Board (AASB) to develop a framework that harmonized the two financial reporting structures—GAAP and the GFS—to achieve an Australian accounting standard for a single set of government reports. AASB 1049, *Whole of Government and General Government Sector Financial Reporting* (AASB 1049), was initially issued in 2006 to address GGS financial reports, and was reissued in 2007 to also cover WoG reporting. A post-implementation review of AASB 1049 took place in 2010-2011. The review identified some areas of improvements, resulting in recent amendments to the Standard, but did not identify any major problems with the Standard's approach.

AASB 1049 takes an integrated approach to GGS and WoG financial reports. It specifies requirements that apply to both types of financial reports. The integrated approach reflects (a) the strong relationship between WoG financial reports and GGS financial reports, and (b) the importance placed on ensuring that reporting requirements are expressed in the same way for GGS and WoG. Requirements differ only where a difference is necessary and intended. AASB 1049 treats GAAP/GFS harmonized reports relating to the WoG (which includes the sectors therein, including the GGS) as falling within general purpose financial reporting, with all requirements that apply to GPFRs also applying to GAAP/GFS harmonized reports. At the same time, AASB1049 establishes the GAAP authority for GAAP/GFS harmonized reports to present the (partially consolidated) GGS, in addition to the (fully consolidated) WoG reports.

Two sets of information continue to be produced. GFS statements apply to the GGS reporting entity. are AASB 1049 defines this separate GGS reporting entity, giving it a place within GAAP. The WoG reports are fully consolidated, including all controlled entities. AASB 1049 applies GAAP definition, recognition, and measurement principles in almost all cases. This is possible because of the substantial alignment between full accrual reporting and GFS reporting, discussed earlier.¹⁸

The main changes that AASB 1049 introduced to Australia's public sector GAAP to facilitate GAAP/GFS harmonization were

1. Presentation: Modification of GAAP presentation principles to accommodate GFS principles to encompass a comprehensive operating statement that retains the GAAP classification system but overlays it with a transactions/other economic flows classification system based on GFS reporting guidelines.

2. Disclosures:

- (a) Expanding disclosure requirements to accommodate, on the face of the statements, key GFS fiscal aggregates and the distinction between cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes adopted by the GFS; and
- (b) Specifying supplementary disclosure requirements, including GFS measures of key fiscal aggregates, reconciliations between GAAP and GFS measures of key fiscal aggregates and explanations of differences between GAAP and GFS.

3. Options: Where an accounting standard allows optional treatments, AASB 1049 mandates that governments shall apply only those treatments that align with GFS guidelines.

¹⁸ The accounting standards applicable to Australian public sector entities are full accrual standards, which are, in substance, the same as IPSASs. Their similarity to IPSASs arises from the Australian convergence with IFRSs, with public sector-specific differences that generally align with IPSAS differences.

5. Increasing Alignment Through Changes to GFS Reporting Guidelines

Introduction

5.1 This section discusses the potential to address some of the remaining differences identified in Section 3 through changes to public sector GFS reporting guidelines. As noted previously, significant progress has been made on convergence, yet differences remain. Some differences are fundamental to a reporting system, because they reflect the purpose of the information. The reporting entity definition difference between accounting and statistical reporting is one such fundamental difference. Further differences fundamental to GFS reporting include the following:

- Transaction symmetry: The two or more parties involved with a single transaction must record symmetrical amounts. For example, (a) loan write-offs must be done on the same basis by both the lender and borrower, (b) transaction costs should not be capitalized by the recipient of an asset, because they are not capitalized by the seller, and (c) borrowing costs should be expensed; and
- Comprehensive income perspective: “Other economic flows” must be separated from other transactions, which means that “holding gains or losses” or other volume changes (for example, impairments) need to be identified in the CoA and separated from other revenue and expenses.

5.2 GFS reporting guidelines are relatively static, compared to accounting standards. as stable requirements for statistics support consistent, long-time series trend information. However more scope for change exists at the level of subsidiary guidance than at the SNA level. The changes described in this section are mainly for consideration by those in the statistical community responsible for developing guidelines based on 2008 SNA, rather than those involved in revisions to the SNA itself. Those responsible for guidelines include the IMF and the European Commission’s Eurostat. National governments either apply these guidelines (for example European Union Members must apply the ESA), or may be in a position to use the guidelines as an important and authoritative basis for their nationally developed GFS requirements.

Changes to GFS Reporting Guidelines

5.3 Section 3 identifies the differences that are viewed as capable of resolution through statistical accounting changes, which are listed within Table 2’s Category C. The changes that could address those differences are described further below.

Measurement of Assets, Liabilities, and Net Assets/Equity (Issue C1)

5.4 As stated above, the SNA has a comprehensive requirement for current market value (called “fair value” measurement within the accounting context). IPSAS changes have moved many areas in accounting onto current value measurement, as either a requirement or an acceptable alternative. This CP treats any remaining differences, for example the inventory measurement difference described in Section 4 above, as requiring standard-setting action by the IPSASB rather than through a change to the SNA. However scope remains for GFS reporting guidelines to address differences in the approaches that governments take to determining current market value measurements.

5.5 For example, governments that have (a) adopted IPSAS 17, *Property, Plant and Equipment*, and IPSAS 31, *Intangibles*, and (b) applied the fair value measurement option and heritage asset

recognition option in these standards, should be able to use the data in their accounting information systems to generate GFS information on their intangible assets and PP&E. But GFS reporting guidelines at a detailed level may differ from the suggested approach to fair value in IPSAS 17 and IPSAS 31. It may also differ from the detailed valuation information to which accountants refer, for example the valuation guidance produced by the IVSC. Three areas of particular concern are the valuation of

- (a) assets for which there is no active and liquid market;
- (b) heritage assets; and
- (c) long-lived, specialized assets, for which market prices are unavailable, including some defense assets, and infrastructure assets (roads, flood control systems, water supply systems, etc.).

- 5.6 View 1, in Section 4 above, includes a proposal that the statistical community consider whether there is scope to (a) take part in discussions with the IVSC and the IPSASB to develop a comprehensive, agreed-upon description of IPSAS/SNA valuation differences, their significance (and scope to address them), and (b) then consider resulting implications for GFS reporting guidelines.

Use of Accounting Data for GFS Reporting

- 5.7 Given the significant benefits derived from using accounting data, generated by accruals information systems used to prepare financial statements, to construct GFS reports, the Task Force considers that, as a general principle, preparers of GFS reports should start with a presumption that accounting data will be used. GFS report preparers should only consider sources of data, and alternative measurement approaches if the financial reporting data has clearly failed to address GFS issues.
- 5.8 In practice, preparers of statistical reports may choose to use other “better” data from a source other than their accounting system, simply because that is what they have always used, or it is produced in-house, and is familiar to them. Statisticians responsible for preparing GFS reports may, for example, prefer a measurement approach that uses indexation to derive a current value from the historic cost of PP&E. This issue is not confined to, but appears to be most common in, the area of reporting on PP&E.
- 5.9 This type of difference, arising from preferred practices rather than standards and guidance, could be resolved through (a) developing more detailed guidance, and (b) identifying procedures that governments can apply to reach clarity and agreement between accountants and statisticians on best practice with respect to PP&E (and wider) reporting issues. For example, agreement on those sources of valuation guidance that are authoritative, for application when the best approach is unclear, could help to ensure that issues are resolved efficiently. This would then allow GFS needs for PP&E information to be met fully through the systems that generate financial reporting data.

View 5:

The statistical community should consider ways to encourage preparers of GFS reports to use accrual-based financial reporting data as the basis for GFS reports, considering alternative data sources only where the financial reporting data has clearly failed to meet GFS reporting needs.

Extractive Industries Exploration and Evaluation; Development and Production (Issue C2)

- 5.10 Statistical accounting treatment for this issue is not entirely clear, and may deviate from that in the applicable accounting standard. The GFSM 2012 appears likely to clarify the treatment, based on 2008 SNA treatment of contract leases and licenses, by applying the accounting approach to explain what should be done specifically to give effect to the SNA requirement. IFRS 6, *Exploration for and Evaluation of Mineral Resources*, is the applicable accounting standard. In addition, IPSAS 29, *Financial Instruments: Recognition and Measurement* requires recognition at fair value for forward sales arrangements.

View 6:

The statistical community should consider whether there is scope to include guidance on reporting on extractive industries, aligned to the applicable international accounting standards (IFRS 6, *Exploration for and Evaluation of Mineral Resources* and IPSAS 29, *Financial Instruments: Recognition and Measurement*), in GFS reporting guidelines.

Decommissioning/Restoration Costs (Issue C3)

- 5.11 2008 SNA (paragraphs 10.51-10.55) includes decommissioning/restoration costs as costs incurred on acquisition and disposal of assets. The GFSM 2012 appears likely to include guidance, consistent with the 2008 SNA and IPSASs' coverage of acquisition and disposal of assets, particularly PP&E. Alignment in this area will be achieved after revisions to GFS reporting guidelines to reflect the 2008 SNA treatment, with supporting detail consistent with IPSAS 17, *Property, Plant and Equipment*, have been made.¹⁹

View 7:

The statistical community should consider whether there is scope to include guidance on reporting decommissioning/restoration costs, aligned with IPSAS 17, *Property, Plant and Equipment*, in GFS reporting guidelines.

Public-Private Partnerships, Service Concession Arrangements, and IPSAS 32 (Issue C4)

- 5.12 GFS guidance on public-private partnerships (PPPs), also called "service concession arrangements" (SCAs), does not stipulate one approach. It leaves reporting entities free to choose either a risks and rewards approach or a control approach. The 2008 SNA (paragraph 22.154-22.163) clarified the SNA treatment of PPPs, including build-own-operate-transfer schemes (BOOT schemes) by governments, but left the approach quite open. SNA states that the guidance

¹⁹ A difference will continue in the treatment of some other provisions, where statistical guidelines do not require recognition but IPSAS does, which will need to be managed. It is therefore included as Issue D5 in Table 2, in Section 3 above, with further discussion in Section 6 below.

is illustrative rather than prescriptive. Further development awaited issuance of IASB and IPSASB standards.

- 5.13 In 2011, the IPSASB issued IPSAS 32, *Service Concession Arrangements: Grantor*, which include both PPPs and what the ESA/SNA call “SCAs.” The IPSAS 32 approach (a) focuses on control, (b) addresses SCA accounting from the government’s (the grantor) perspective, and (c) is consistent with the IFRS approach that applies to grantees (the business operator receiving concessions from government).
- 5.14 ESA guidance on concession arrangements where the majority of revenue comes from third parties usually means all assets ending up with the operator, which for PPPs (where government pays) the related risks and rewards must be analyzed. Both treatments are different from the approach taken in IPSAS 32 and the related IFRS requirements. There is no worldwide agreement among statisticians on the treatment of PPPs and SCAs, and 2008 SNA is non-prescriptive. The SNA has this issue on its research agenda. The timing is unknown.

View 8:

The statistical community should consider whether there is scope to include guidance in GFS reporting guidelines on reporting service concession arrangements, consistent with the applicable international accounting standards and interpretations (IPSAS 32, IFRIC 12, and SIC-292).

Subscriptions to International Organizations (Issue C5)

- 5.15 “Subscriptions,” within the context of international organizations’ funding, cover a variety of different types of funding, including the United Nations system of “assessed contributions” and “voluntary contributions.” Assessed contributions are amounts equal to a proportion of an approved (annual or biennial) budget, which may be fully paid prior to the start of the budget period, paid in tranches over the budget period, or paid in arrears. Voluntary contributions can take many different forms, including (a) simple pledges, (b) complex funding agreements where payment is conditional on service delivery, and (c) concessionary loan type arrangements.
- 5.16 The SNA treatment of subscriptions to international organizations has moved to an accrual basis. However IPSASs do not yet specify the treatment of different types of subscriptions. Determining an accounting treatment requires reference to IPSAS concepts of assets and expenses, and application of different IPSASs, to the extent that the particular type of subscription appears to fall into transfers described within those standards.
- 5.17 The 2008 SNA guidelines indicate that transactions with international and supranational organizations, including membership dues and subscription fees payable to international organizations, may not be treated as transfers, but as payments for a service, which are recorded on an accrual basis. Exceptionally, and when there is a possibility (even if unlikely), of repayment of the full amount, the payment may be represented as a financial asset
- 5.18 Eurostat has developed guidance on subscriptions to Multilateral Development Banks in its MGDD. The guidance records as expenditure all those subscriptions to banks’ loan facilities that make concessionary lending. . Similar guidance in the updated GFSM will clarify that, depending on their nature, subscriptions to international nonmonetary organizations could give rise to expenses.

View 9:

The statistical community should consider (a) whether there is scope to provide further guidance on the treatment of subscriptions to international organizations, and (b) how it could work with the IPSASB to ensure consistency with the guidance that the IPSASB plans to develop through its public sector-specific financial instruments project.

Costs Associated with Intangible Assets, Including Research and Development Costs (Issue C6)

- 5.19 The IPSAS and the SNA treatments for costs associated with intangible assets, including research and development (R&D) costs, appear now to be generally aligned. The recommendation that R&D providing an economic benefit should be recognized as an asset has been met. The IPSASB issued IPSAS 31, *Intangible Assets*, which sets out recognition requirements covering R&D, software, and other intangible assets. The 2008 SNA revisions were intended to be aligned with the business accounting standard (IAS 38, *Intangible Assets*), with which IPSAS 31 is converged. These changes mean that the two treatments should be aligned, but a gap in SNA's detail with respect to capitalization appears, in practice, to allow capitalization of costs (research costs, and costs related to some internally generated intangible assets) that IPSAS 31 does not capitalize.
- 5.20 The 2008 SNA treats R&D as a single category, with rules about asset recognition (when future economic benefits exist—see SNA 10.103) applying to R&D as a whole. IPSAS 31 divides R&D into “research” and “development,” defining each category, then specifying asset recognition for each category, with “research” costs *always* expensed. Furthermore, the 2008 SNA does not provide the same level of guidance on internally generated intangible assets as does IPSAS 31, with the result that there may be differences in practice.

View 10:

The statistical community should consider whether there is scope to include guidance on when costs associated with R&D and internally generated intangibles should be either capitalized or expensed, aligned with the IPSAS 31, *Intangible Assets* treatment, in the GFS reporting guidelines.

Revisions to SNA

Low-Interest and Interest-Free Loans (Issue C7)

- 5.21 The SNA and IPSAS approaches to measurement of low-interest and interest-free loans are now aligned. An IPSAS to address non-exchange revenue, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* has been issued. IPSAS 23 and IPSAS 29 deal with concessionary loans. The entity needs to assess whether an arrangement is an exchange or non-exchange transaction. Normal impairment applies. The 2008 SNA, (paragraph 22.123-22.124) defines concessionary terms, and states that concessionary interest rates to a foreign government could be seen as providing a transfer equal to the difference between the actual interest and the market equivalent interest. If such a transfer is recognized, it is usually recorded as current international cooperation. The interest recorded would be adjusted by the same amount.
- 5.22 However, a difference remains with respect to where the measured amounts are reported. Under SNA information on concessionary debt is shown in supplementary tables. IPSAS includes this information within amounts reported on the face of financial statements, impacting on aggregates such as total assets, net assets/equity, and (for value changes) the operating result.

- 5.23 The treatment of concessionary loans is on the research agenda of the SNA, and Eurostat is also trying to resolve this issue. In the interim, the difference can be managed through transfer of amounts captured through an IPSAS information system into SNA supplementary tables. (This type of management of differences is discussed further in Section 6 below.)

View 11:

The statistical community should consider whether there is scope to provide input into SNA consideration of the issue of low-interest and interest-free loans, to ensure that (a) measurement of these loans remains aligned with the IPSAS approach, and (b) consideration is given to including values and related value changes in GFS statements.

6. Managing the Remaining Differences

- 6.1 As explained in Section 2, the overlap between data required for governments' financial reporting and information for their statistical reporting is large. Both sets of information are financial, accrual-based information, and both show a government's assets, liabilities, revenue, and expenses. Over recent years, there has been significant progress on aligning IPSASs and GFS reporting guidelines, so that the fundamental similarities between the two reporting systems are not obscured by unnecessary differences. Although differences between the information reported under the two frameworks will reduce further in the future, Section 2 also explains why they will never completely disappear. In particular the objectives of the two types of reports are different, and the related reporting requirements must reflect those different objectives.
- 6.2 This section begins by describing how differences between IPSAS requirements and GFS reporting guidelines can be managed, so that financial statement data can be used as the basis for statistical reports. It then discusses options for further support that the IPSASB could provide to help manage the remaining differences.

Different Management Approaches

- 6.3 The main approaches that a government needs to adopt to manage the remaining differences between IPSASs and GFS can be summarized as:
- (a) Choice of IPSAS options;
 - (b) Chart of Accounts (CoA) design, and
 - (c) Need for additional data.
- 6.4 Table 3 below illustrates what each approach involves. The three differences included in Table 3 do not cover all differences. For example, the counterparty classification difference is only one example where additional, GFS related, codes would be need. (Paragraphs 6.8 to 6.9 discuss further classification differences.)

Table 3. Managing the Remaining Differences Between IPSASs and Statistical Accounting²⁰

Difference	Management Approach			Resolution
GFS requires:	Choose IPSAS option	CoA Design	Additional data needed	
Current market values for PP&E	<i>Choose "fair value" option in IPSAS 17</i>	Not applicable	Not applicable	Difference resolved
Counterparty classification of transactions	No SNA aligned option	<i>Include codes in CoA</i>	Not applicable	Difference resolved
Current market values for inventory	No SNA aligned option	Cannot be resolved by CoA design	<i>Extra inventory valuation</i>	Difference resolved

²⁰ Table 3 uses examples of existing IPSAS-GFS differences to illustrate how to manage such differences. The differences included in this table may be resolved over time, through changes either to IPSASs or statistical guidance, at which point they will no longer need to be managed.

(a) *Choice of IPSAS options*

- 6.5 To maximize the support that financial statement data provides for statistical reporting (and to minimize the need to collect extra data), the accounting policies used in financial statements should be aligned with GFS needs wherever possible. For example, IPSAS 17 and IPSAS 31 allow preparers to measure assets either on a depreciated historic cost basis, or at current market value (fair value²¹). GFS reporting always requires current market value measurement, so the fair value accounting option in each standard needs to be adopted to meet GFS reporting needs. Choosing current value measurement means that there is no need to carry out a second valuation of assets in order to have asset measurement information for statistical reporting²².
- 6.6 There are certain items that IPSASs recognize that SNA do not, or occasionally vice versa. IPSAS 17 includes one example where an IPSAS does not require recognition where SNA does require this. IPSAS 17 provides a choice about the recognition of heritage assets, while GFS reporting requires that heritage assets be recognized. This heritage assets recognition difference can be resolved by choosing the IPSAS 17 option to recognize heritage assets.

(b) *Chart of Accounts Design*

- 6.7 The same information system that generates data for a government's financial statements can generate most of the data necessary for the government's statistical reports. But to do this the government's CoA needs to include the coding necessary for statistical report classifications. The main information that must be added to an IPSAS CoA includes
- Counterparty information for transactions; and
 - Statement classifications necessary to map items into the correct statistical categories, where the main additional codings needed will distinguish between:
 - (a) (i) Transactions and (ii) other economic flows.
 - (b) (i) Cash, (ii) non-cash, and (iii) (if necessary) intra-government charges. (The CoA will need to do this at a reasonably detailed line item level.)
 - (c) Different categories of financial assets and liabilities, according to (i) the residency of the other party to the instruments (debtors for financial assets and creditors for liabilities) and (ii) their currency of denomination (domestic or foreign)
- 6.8 With extra codings, such as those listed above, CoA design is able to address
- Classification differences (e.g., statistics needs items to be classified into resident/nonresident, while IPSASs do not require that items be classified in this way);
 - Definitional differences. (e.g., statistics defines certain types of defense weapons to be inventory, while the same weapons would be defined as PP&E under IPSAS);

²¹ The revaluation option in each IPSAS allows assets to be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent (a) accumulated depreciation and impairment losses, in the case of PP&E or (b) accumulated amortization in the case of intangible assets. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

²² Section 4 and Section 5 explain that, even where the same valuation base is applied, differences may arise in practice. Ways to prevent those differences are proposed.

- Recognition differences, where IPSASs recognize an item that statistical reporting does not recognize. (e.g., statistical reporting does not recognize the up-front financial impact of concessionary loans, while IPSAS financial reporting does); and
- Financial statement location differences. (e.g., statistical reporting reports an item as an expense in the Operating Statement, while IPSAS reporting reports the same item as a distribution to owners and includes it in the Statement of Movements in Equity) This type of difference is basically another type of classification difference. (The tables in **Appendix C** provide an overview of GFS/IPSAS presentation requirements.)

(c) Need for Additional Data

- 6.9 As explained above, accounting policy choice can reduce the extent to which new data is needed but it is likely that, after further alignment has been achieved through the information system's CoA design, further data will still be needed to generate GFS reports. For example, it may be necessary to carry out a separate valuation of inventory assets, because the inventory is valued at cost for the financial statements, and the GFS reporting guidelines require current market values.

IPSASB Support for Preparation of GFS Reports from Financial Statement Data

Standard CoA

- 6.10 The CoA is a critical element of a government's public financial management framework. The question arises whether a standard CoA could be developed that would (a) address both IPSAS requirements and GFS needs, and (b) meet the CoA classification needs of all governments. This type of standard, comprehensive CoA would provide benefits in terms of international comparability of financial statements and GFS reports, as well as supporting governments' adoption of accrual accounting.
- 6.11 Although this idea appears initially to have the potential to provide major benefits in terms of supporting governments' dual reporting, the following disadvantages of developing a standard CoA for global use would outweigh these:
- (a) A single, standard CoA would apply a "one size fits all" approach, when this is inconsistent with inter-country differences resulting from culture, politics, geography, etc.;
 - (b) Comprehensive capture of all the data needs of different governments would necessitate a very large amount of detail, but
 - only a smaller subset of the resulting codes would be relevant to any particular government; and
 - more detail would mean an increased likelihood of incorrect entry of data, and higher training costs for staff entering data into the CoA; And,
 - (c) Development and maintenance would be very resource-intensive.

Developing guidance on the dual-use CoA

- 6.12 An alternative to developing a standard CoA is for the IPSASB to develop guidance on development of a dual-use CoA, including a description of the main components necessary to meet both IPSAS and GFS reporting needs. This description would address the fundamental distinctions essential for the mapping of IPSAS data into GFS classifications. These would include financial statement presentation differences, that ensure the system can generate key GFS indicators such as (a) gross and net operating balances, (b) net lending/borrowing, (c) fiscal burden, and (d) the different GFS debt concepts. Classifications to address recognition and

valuation differences would also need to be addressed. Adopting this approach would mean that governments would need to do their own analysis of IPSAS requirements, GFS reporting needs, and their specific financial management and accountability needs, when developing or upgrading their financial information systems.

6.13 Principles applicable to development of a dual-use CoA could include:

- Being structured according to the main elements of reporting (assets, liabilities, etc.);
- Incorporating the more detailed GFS structure, including disclosures (memorandum items);
- Incorporating all IPSAS numeric disclosure requirements, e.g., PP&E, Investment Properties, Agriculture, Cash Flow reconciliation, Provisions. (In this way, not only are the statement items included, but the note disclosure breakdown is included as well.);
- Holding data at the lowest level required by either GFS or IPSAS to facilitate reporting for each item to be disclosed; and
- Identifying alignment measurement and recognition differences, so that such differences can be reported, explained where necessary, and facilitate the production of statistical reports. (For example, the structure needs to capture IPSAS provisions, and then facilitate the unpacking of those provisions between GFS assets/liabilities, GFS memorandum items, and those provisions not recorded at all in GFS reports.)

6.14 The guidance could also cover a wider set of issues related to dual-use CoA development. For example, it could cover

- (a) A description of the benefits that a dual-use CoA will deliver;
- (b) Project management, process, and business case considerations, such as
 - the inclusion of GFS in the description of the government's business needs that the CoA should address, the project brief, and information system specifications;
 - specification that the information system consultants have expertise (or access to expertise) on GFS reporting needs and how those needs can be integrated into an IPSAS information system;
 - development of expertise on GFS reporting needs on the part of government accountants and/or inclusion of GFS experts in the accounting department;
 - involvement of government statistics office representatives in financial information system projects, with communication on the benefits that statisticians will gain from a well-designed dual-use system; and
 - system training that includes coverage of GFS reporting needs; and
- (c) Website or other access to (i) guidance on CoA design, and (ii) CoA examples, from governments that report on an IPSAS basis and include additional GFS functionality.

Specific Matter for Comment 4 (See paragraphs 6.10 to 6.14)

Do you agree that the IPSASB should develop guidance on the development of dual-use Charts of Accounts, which would include (a) an overview of the basic components of a dual-use CoA, and (b) wider coverage such as that listed in paragraph 6.14 of this CP?

7. Strengthening the Priority Attached to GFS Alignment in the IPSASB's IPSAS Development and Revision Process

- 7.1 Sections 4 and 5 of this CP have described changes to IPSASs and public sector GFS reporting guidelines that would improve alignment between IPSASs and GFS. However, there is an underlying issue about the importance that the IPSASB should place on alignment with GFS guidelines relative to that placed on IFRS convergence. Presently the IPSASB tends to place greater emphasis on IFRS convergence than on GFS guideline alignment. For many financial reporting topics there is no conflict between convergence with IFRS and alignment with GFS reporting guidelines, so that, in practice, few problems arise. However this is not always the case.
- 7.2 The question is whether there is scope for the IPSASB to take a more systematic approach to alignment of IPSASs and public sector GFS reporting guidelines. A more systematic institutional commitment to alignment could involve procedural and standards style changes such as
- (a) Inclusion of reference to GFS alignment in the IPSAS Manual Preface;
 - (b) Inclusion of GFS comparisons in all IPSASs, similar to the IFRS comparisons that are presently included;
 - (c) Inclusion of a standard cross-reference from each IPSAS to IPSAS 22, which emphasizes the role of IPSAS 22 *vis-a-vis* identification of GFS disclosures, GFS-aligned options, and other GFS-focused material;
 - (d) GFS Alignment issues considered regularly by the IPSASB, on an annual, biennial, or triennial basis, similar to the annual improvements projects that address IFRS changes. (This would contrast with the present approach; GFS alignment is treated on an ad hoc basis, with new initiatives individually approved as part of the IPSASB's work plan, and their frequency being approximately once every seven years.);
 - (e) Development of a "Rules of the Road" equivalent for the IPSASB's GFS alignment commitment that would set out the applicable policies and decision process the IPSASB follows when considering issues that impact on GFS alignment; and
 - (f) A positive commitment not only to avoid unnecessary differences between GFS and IPSAS and support alignment, but to make GFS alignment a driving factor in review and development of IPSASs.

Specific Matter for Comment 5

- (a) Do you think that the IPSASB should take a more systematic approach to aligning IPSASs and GFS reporting guidelines? If not, why not?
- (b) If so, which of the approaches listed in paragraph 7.1, (a) through (f), should the IPSASB adopt, and why?
- (c) Are there other approaches that the IPSASB should adopt? Please describe these.

Appendix A: Background on IPSASs and Public Sector GFS Reporting Guidelines

Statistical Bases for Reporting Financial Information

- A1. The overarching model for macroeconomic statistics is the System of National Accounts (SNA). The SNA is a framework for a systematic and detailed description of the national economy and its components, including the general government sector, and its relations with other economies. It is under the joint responsibility of the United Nations, the IMF, the Commission of the European Communities, the OECD, and the World Bank. The latest version of the SNA, the 2008 SNA, was issued in 2008. The 2008 SNA updated the SNA 1993, to address issues brought about by changes in the economic environment, advances in methodological research, and users' needs.
- A2. Other internationally recognized macroeconomic statistical bases are harmonized with the SNA to the extent consistent with their objectives. The European Union's legislated rules for national accounts, the European System of Accounts (ESA), aims to be consistent with the SNA in definitions, accounting rules, and classifications. The ESA includes certain differences, mainly presentational, that reflect European Union statistical requirements. The current version of the ESA is the ESA 95, which is consistent with the SNA 1993. The ESA is undergoing an update. In December 2010, the European Commission presented a proposal for the updated ESA, ESA 2010. That proposal is now subject to discussions at the European Council and European Parliament. It is expected that agreement, with adoption and publication of ESA 2010, will be reached later in 2012. ESA 2010 would then be applied by governments from 2014.
- A3. ESA 95 is complemented by the ESA 95, *Manual on Government Deficit and Debt* (MGDD), which has been prepared to aid in applying the ESA 95 (the conceptual reference framework) for calculating government deficit and debt statistics. This MGDD is regularly updated.
- A4. For non-EU government finance statistics, the key source of guidance is the IMF's *Government Finance Statistics Manual* (GFSM). Although the GFSM focuses on the general government sector, its guidelines apply equally to corporations in the public sector.
- A5. The latest version of the GFSM, which was issued in 2001 (GFSM 2001), is harmonized with the SNA 1993. A revision of the GFSM is in progress, with the revised GFSM expected to be issued later in 2012. The revised GFSM (GFSM 2012) will be harmonized with the 2008 SNA. It will also incorporate changes to GFS designed to address IPSAS convergence recommendations included in a 2005 research report, published by IFAC and produced by a task force sponsored by the IPSASB.

International Public Sector Accounting Standards

- A6. International Public Sector Accounting Standards (IPSASs) apply to general purpose financial reports (GPFRs) of public sector entities (other than Government Business Enterprises (GBEs)), which include general purpose financial statements (GPFs). GPFRs, including GPFs, are prepared to achieve the objectives of GPFRs, which are to provide information about the entity that is useful to users for accountability and decision-making purposes.
- A7. IPSASs are issued by the International Public Sector Accounting Standards Board (the IPSASB) for application by governments and other public sector entities (other than GBEs). International Financial Reporting Standards (IFRSs) are issued by the International Accounting Standards Board (IASB) for application by profit-oriented entities. The standards issued by the IPSASB and the IASB represent the international accounting model for financial reporting, sometimes referred to as

international Generally Accepted Accounting Principles (GAAP). In many countries, national standard setters and other authoritative bodies have developed authoritative requirements that form national accounting reporting bases, or national GAAP. Currently, there is significant activity to converge national and international accounting reporting bases for both the public and private sectors.

- A8. As of June 30, 2012, the IPSASB had issued 32 IPSASs for application when the accrual basis of financial reporting is adopted. (See Box 1: List of IPSASs.) The IPSASs are based on IFRSs to the extent that IFRS requirements apply to the public sector. A comprehensive cash basis IPSAS has also been issued.

Box 1: LIST OF IPSASs

This list shows IPSASs available as of June 2012. For a current list of IPSASs and the standards themselves, see the IFAC website at <http://www.ifac.org/>. The standards are found under “Publication and Resources,” at <http://www.ifac.org/public-sector/publications-resources..> They can be downloaded (for free) from that section.

IPSAS 1—Presentation of Financial Statements	IPSAS 18—Segment Reporting
IPSAS 2—Cash Flow Statements	IPSAS 19—Provisions, Contingent Liabilities and Contingent Assets
IPSAS 3—Accounting Policies, Changes in Accounting Estimates and Errors	IPSAS 20—Related Party Disclosures
IPSAS 4—The Effects of Changes in Foreign Exchange Rates	IPSAS 21—Impairment of Non-Cash-Generating Assets
IPSAS 5—Borrowing Costs	IPSAS 22—Disclosure of Information about the General Government Sector
IPSAS 6—Consolidated and Separate Financial Statements	IPSAS 23—Revenue from Non-Exchange Transactions (Taxes and Transfers)
IPSAS 7—Investments in Associates	IPSAS 24—Presentation of Budget Information in Financial Statements
IPSAS 8—Interests in Joint Ventures	IPSAS 25—Employee Benefits
IPSAS 9—Revenue from Exchange Transactions	IPSAS 26—Impairment of Cash-Generating Assets
IPSAS 10—Financial Reporting in Hyperinflationary Economies	IPSAS 27—Agriculture
IPSAS 11—Construction Contracts	IPSAS 28—Financial Instruments: Presentation
IPSAS 12—Inventories	IPSAS 29—Financial Instruments: Recognition and Measurement
IPSAS 13—Leases	IPSAS 30—Financial Instruments: Disclosures
IPSAS 14—Events After the Reporting Date	IPSAS 31—Intangible Assets
IPSAS 15—Financial Instruments: Disclosure and Presentation (<i>To be withdrawn</i>)	IPSAS 32—Service Concession Arrangements: Grantor
IPSAS 16—Investment Property	
IPSAS 17—PP&E	

Task Force on Harmonization of Public Sector Accounting

- A9. Work on IPSAS statistical accounting convergence formally began in 2003. That convergence initiative was prompted by (a) recognition that there were convergence opportunities in the SNA revisions that led to the 2008 SNA, (b) calls for greater convergence from national governments using accrual basis financial reporting who wanted to achieve reporting efficiencies, and (c) views that improved convergence between the two accounting bases would support their mutual understandability to the benefit of users of both financial and statistical reports.
- A10. The Task Force on Harmonization of Public Sector Accounting (TFHPSA) was established in late 2003. The TFHPSA's purpose was to examine ways to minimize unnecessary differences between accounting and statistical bases of financial reporting. Its mandate included making recommendations to the IPSASB, the IMF, and groups responsible for input into SNA revisions. An SNA revision was then in progress, with scope to include revisions that would improve convergence with financial accounting. Changes to the SNA 1993 culminated in issuance of the 2008 SNA. The IPSASB work plan and ongoing IPSAS developments also provided scope for IPSASs to converge with statistical accounting guidelines.
- A11. In January 2005, IFAC published *International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence* (2005 Research Report). The 2005 Research Report, prepared by the TFHPSA, comprehensively documented similarities and differences between the two reporting systems. The report also recommended specific convergence activities that could be undertaken by the key groups, including the IPSASB, Eurostat, and the IMF. The 2005 Research Report recommended that the PSC (now the IPSASB) undertake
- (a) Development of an IPSAS that (i) allows or encourages disclosure of information about the general government sector (GGS) (as defined in statistical bases of financial reporting) in whole of government GPFs, (ii) specifies rules when a government elects to make such disclosures, and (iii) acknowledges that other sectors may also be disclosed in a manner similar to the GGS information;
 - (b) A long-term project on reporting financial performance that would split the comprehensive result into two components, aligned as far as possible with the split between transactions and other economic flows adopted in statistical bases of financial reporting; and
 - (c) IPSASs or revisions to existing IPSASs that require or allow increased use of current values in IPSASs.
- A12. With respect to IPSAS options, the report acknowledged that inclusion of an option consistent with statistical accounting meant that convergence had been achieved, but also recommended that the IPSASB consider removing non-converged options. With respect to IFRS convergence, the report noted that the SNA encompasses both the public and private sectors, which means that it compiles statistics about transactions and events in both sectors. On that basis, the report encouraged the IPSASB to continue to consider IFRSs when developing IPSASs, and to depart from IFRSs only when a public sector-specific reason to do so exists.
- A13. In the seven years since the 2005 report was issued, significant progress has been made in addressing the differences identified. In particular, IPSAS and GFSM/ESA developments have addressed many of the convergence recommendations in the 2005 report. Appendix B provides an overview of progress made, and identifies issues on which further work remains. At the same time, as progress has occurred on differences, other developments have (a) identified new ways to

manage differences, (b) placed greater emphasis on IPSASs as the primary focus for alignment (rather than accrual reporting standards generally), and (c) increased the importance of timely, high-quality production of data for both financial accounting and statistical finance reporting.

IPSASB Developments Since 2005

IPSAS 22, Disclosure of Financial Information About the General Government Sector

- A14. As noted above, the 2005 Research Report recommended that the IPSASB develop an IPSAS that would allow or encourage disclosure of information about the general government sector (GGs). In response to that recommendation, the IPSASB developed IPSAS 22, *Disclosure of Financial Information About the General Government Sector* (IPSAS 22), issued in December 2006.
- A15. IPSAS 22 established requirements for those governments that elect to disclose information about the GGS. The disclosures required by IPSAS 22 are intended to provide a useful bridge to the statistical bases of reporting. IPSAS 22's objective is to
- “...prescribe disclosure requirements for governments which elect to present information about the general government sector (GGs) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and nonmarket activities of the government and between financial statements and statistical bases of financial reporting.” [paragraph 1, IPSAS 22]
- A16. IPSAS 22 is applied in respect of a government's consolidated financial statements. Information disclosed in accordance with IPSAS 22 disaggregates those consolidated financial statements according to the GGS boundaries, as specified in statistical bases of financial reporting. IPSAS 22 does not permit reporting entities to consolidate information about entities that are not subject to common control, as statistical information about government finances published by a statistical agency would.
- A17. IPSAS 22 requires entities electing to make GGS disclosures to apply all IPSASs to those disclosures except IPSAS 6, *Consolidated and Separate Financial Statements*. Statistical bases of financial reporting use consolidation rules that differ from those in IPSAS 6; applying IPSAS 6 would not enable comparison of financial statement information with GGS information. IPSAS 22 requires a different treatment of investments in the public corporations sector than is normally required by IPSASs. IPSAS 6 requires full consolidation of all entities; however, IPSAS 22 requires the public financial corporation sector and the public nonfinancial corporation sector to be presented as investments of the general government sector. IPSAS first applied to annual periods beginning on or after January 1, 2008, but earlier application was encouraged.

New IPSASs and IFRS Convergence

- A18. From 2005 to 2010, the IPSASB issued new IPSASs on non-exchange revenue, employee benefits, financial instruments (presentation, recognition, measurement, and disclosures), agriculture, and, intangible assets. These IPSASs supported convergence with statistical accounting by clearly establishing IPSAS requirements for these topics and, where appropriate, including disclosure requirements that support statistical accounting needs. The majority of these standards were developed on an IFRS-convergence basis.
- A19. The 2005 Research Report emphasized the importance of IPSASs continuing to be developed on an IFRS convergence basis:

“...the 1993 SNA encompasses the private and the public sectors and needs to deal with, and compile statistics about, transactions and events that arise in both sectors. Consistent with this, the IPSASB is encouraged to continue to consider IFRSs when developing IPSASs and to only depart from those IFRSs when there is a public sector-specific reason to do so. This will ensure that the same transactions and other events are accounted for in the same way by public and private sector entities that adopt the accrual basis of reporting, unless there is good reason for a difference.”

- A20. To facilitate its IFRS convergence strategy, the IPSASB developed an explicit policy to guide its IFRS convergence. The IPSASB's *Process for Reviewing and Modifying IASB Documents* (often called its “Rules of the Road”), was issued in October 2008. The policy sets out parameters for key decisions when considering IASB documents for convergence, including how to identify issues that warrant public sector-specific projects or differences. The “Rules of the Road” takes GFS reporting guidelines into account, but a different statistical accounting treatment on its own is not considered to be sufficient reason to depart from an IFRS requirement. The statistical accounting difference must be accompanied by other public sector-specific considerations to justify an IFRS departure. IPSASs also have “Annual Improvements,” which keep IPSASs aligned with IFRS revisions made through the IASB's Annual Improvements Program.

IPSASB's Conceptual Framework Project

- A21. The IPSASB's Conceptual Framework Project was initiated in 2006. The project aims to make explicit the concepts that are to be applied in developing IPSASs and other documents that provide guidance on information included in GPFRs. The IPSASB considers the concepts underlying statistical financial reporting models, and the potential for convergence with them, in developing its Conceptual Framework. The project considers fundamental issues related to financial performance, element recognition, measurement, and presentation.
- A22. The Conceptual Framework Project is being developed in phases. The components of the Conceptual Framework have been grouped as follows, and are being considered in the following sequence:
- | | |
|---------|---|
| Phase 1 | The scope of financial reporting, the objectives of financial reporting and users of GPFRs, the qualitative characteristics (QCs) of information included in GPFRs, and the reporting entity; |
| Phase 2 | The definition and recognition of the “elements” of financial statements; |
| Phase 3 | Consideration of the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements; and |
| Phase 4 | Consideration of the concepts that should be adopted in deciding how to present financial and nonfinancial information in GPFRs. |
- A23. As of June 2012, the IPSASB had made a number of preliminary decisions. Preliminary decisions include that
- GPFRs for public sector entities include, but are more comprehensive than, the financial statements currently dealt with in IPSASs;
 - The objectives of financial reporting are to provide information about the entity useful to users of GPFRs for accountability and decision- making purposes;

- Public sector GPFRs are developed primarily to respond to the information needs of service recipients and their representatives, and resource providers and their representatives.
- The IPSASB's Conceptual Framework is expected to be completed in 2013.

Statistical Accounting Developments Since 2005

SNA Revisions

A24. As explained in Section 1, a revised version of the SNA revision was issued in 2008. The 2008 SNA replaced the SNA 1993. The 2008 SNA has addressed some of the issues identified in the 2005 Research Report. As a consequence of the SNA revision, revisions to the ESA and the GFSM are in progress.

ESA Revisions

A25. The ESA update (to result in the ESA 2010) will align the ESA with the 2008 SNA. In December 2010, the European Commission presented a proposal for the updated ESA (ESA 2010). That proposal is now subject to discussions at the European Council and European Parliament. It is expected that agreement, with adoption and publication of ESA 2010, will be reached in 2012. ESA 2010 would then be applied by governments from 2014. The MGDD is regularly updated. Revisions address alignment issues where possible.

GFSM Revisions

A26. Revisions to the GFS Manual (GFSM 2001) are in progress. The revisions will align the GFSM with the revised 2008 SNA. There is also some scope, in the revised GFSM, to clarify that the GFS treatment should be the same as the IPSAS treatment. The revised GFSM is expected to be issued in 2012.

Appendix B: Differences Between IPSASs and GFS Reporting Guidelines—Progress and Current Status

Issue	Progress since 2005, and Status as of January 2012
A) Issue resolved	
A1. Scope of the reporting entity and sector reporting IPSAS 6, IPSAS 22	<p>Progress: IPSAS 22, <i>Disclosure of Financial Information About the General Government Sector</i> (a) encourages disclosure of information about the general government sector, (b) specifies rules when a government elects to make such disclosures, and (c) requires a government's investment in public corporations to be recognized at the carrying amount of investees' net assets.</p> <p>Status: The recommendation for reconciliation through disclosure has been met.</p> <p><u>Further information:</u> The conceptual difference between how the reporting entity is defined for statistics and for IPSAS remains. (Also see B1 and D1, where scope to align in this area and management of this issue are identified.)</p>
A2. Investments in unquoted shares – measurement IPSAS 29, SNA 13.70-13.71	<p>Progress: IPSAS 29 requires fair value where there is a reliable measure, otherwise, cost. In practice, fair value is used in the majority of cases. The 2008 SNA adopts a “current market price” (fair value) hierarchy across all assets. So, the two treatments are consistent.</p> <p>Status: The measurement issue has been resolved.</p> <p><u>Further information:</u> The issue of where losses and gains should be reported (i.e., in which financial statement) is unresolved. It is included within the broad issue related to financial statement presentation differences under “Category D Issues to Manage.” The specific issue related to reporting of income is included under Category B Resolution Possible—IPSAS.</p>
A3. Employee stock options IFRS 2, SNA 11.125, Chapter 17	<p>Progress: SNA changes have addressed the differences. 2008 SNA, (paragraph 11.125) clarified employee stock options. Chapter 17 now provides guidance on valuation and recognition. So there is no difference between IPSAS and the SNA. (Note that IFRS 2 is the authoritative pronouncement, applying the IPSAS hierarchy.)</p> <p>Status: Issue resolved. No remaining differences.</p>
A4. Non cash-generating assets, including heritage assets - measurement and recognition IPSAS 17, IPSAS 31, and SNA 3.43, 13.16-13.25	<p>Progress: SNA work to align guidance on the valuation of non cash-generating assets, including heritage assets, has resolved this issue. If entities choose to use the revaluation options in IPSAS 17 and IPSAS 31, then their measurement of PP&E will be aligned with statistical accounting's use of current market price. With respect to heritage assets, statistical reporting recognizes heritage assets, while IPSAS makes recognition optional. When entities apply the IPSAS 17 and IPSAS 31 options to recognize heritage assets, their IPSAS treatment is aligned with statistical reporting. Therefore, alignment is confirmed, conditional on use of the appropriate options in IPSAS.</p> <p>Status: Issue resolved. No remaining differences. <u>Further information:</u> Despite alignment at the level of standards and formal guidelines, measurement differences may still arise in practice when there is not an active and liquid market for the valuation of these types of assets. The SNA/GFS approach to establishing fair value when it is difficult to use a market value due to an absence of market transactions for assets may differ from the IPSAS 17's suggested approach. The same issue also applies to the measurement of heritage assets. This issue is included in Categories B and C below.</p>

Issue	Progress since 2005, and Status as of January 2012
A5. Borrowing costs IPSAS 5, SNA 7.113 -7.126	<p>Progress: IPSAS 5, <i>Borrowing Costs</i>, has the SNA approach of expensing borrowing costs as its “benchmark treatment,” but allows capitalization of costs as an acceptable alternative treatment for costs related to certain assets. Entities can align by choosing to apply the IPSAS 5 option to expense all borrowing costs. Therefore, alignment is confirmed, conditional on use of the appropriate option in IPSAS 5.</p> <p>Status: Issue resolved. No remaining differences. <u>Further work possible:</u> Monitor developments with respect to IPSAS 5, <i>Borrowing Costs</i>, to ensure that the “expense” option either remains or becomes the benchmark treatment. Include “expense” option in proposed IPSAS 22 application guidance on SNA consistent options within IPSAS.)</p>
A6. Defense weapons – capitalization and classification IPSAS 12, IPSAS 17, SNA 10.87, 10.144 and A3.55-58	<p>Progress: SNA changes have met recommendations on capitalization and classification. The 2008 SNA (paragraphs 10.87, 10.144 and A3.55-58) recommends that military weapon systems be classified as fixed assets based on the same recognition criteria as for other fixed assets. The 2008 SNA also recognizes large defense weapons systems and weapons platforms as assets, measured at fair value. Missiles and explosive ordinance are treated as inventory. These changes will flow to the update of the GFSM. Measurement differences remain for long-lived, specialized assets, where statistical accounting tends to prefer an indexation approach, while financial accounting could use depreciated replacement cost (DRC), which is a reasonable market price surrogate, but for specialized items could be difficult to determine. These measurement differences are not specific to defense weapons and they are included as a general issue under Category D Issues to Manage.</p> <p>Status: Issue resolved. No remaining differences. <u>Further work possible:</u> There is scope to provide more guidance and clarification on (a) when defense weapons should be classified as PP&E, and when as inventory, (b) when defense items should be capitalized rather than expensed, and (c) how to value long-lived, specialized assets for which market prices are unavailable. (See Issues B5, B6, and C1 below.)</p>
A7. Recognition and derecognition of financial instruments IPSAS 28, IPSAS 29, SNA 12.42, 22.122	<p>Progress: IPSAS 29's recognition and derecognition requirements mirror those of IAS 39. IPSAS 28 adopted the requirements of the former IPSAS 15 as they relate to offsetting. The 2008 SNA requirements in respect of debt defeasance have not changed, but have been elaborated upon. The 2008 SNA deals specifically with debt assumption as a liability; however, if on transfer the acquirer also includes a claim against the debtor, then a financial asset is also recognized. The 2008 SNA treats debt forgiveness as government expenditure (a capital transfer) with the creditor's liability and the debtor's asset reduced by the amount forgiven. The IMF's Public Sector Debt Statistics Guide provides detailed clarifications on debt assumptions.</p> <p>Status: Issue resolved. No remaining differences.</p>

Issue	Progress since 2005, and Status as of January 2012
<p>A8. Costs associated with R&D and other intangible assets IPSAS 31, SNA 13.33, 13.36, and 10.98-10.117; para 4.52</p>	<p>Progress: The recommendation that R&D that provides an economic benefit be recognized as an asset has been met. The IPSASB issued IPSAS 31, <i>Intangible Assets</i>, which sets out recognition requirements covering R&D, software, and other intangible assets. The 2008 SNA revisions are intended to be aligned with the business accounting standard (IAS 38, <i>Intangible Assets</i>) with which IPSAS 31 is converged. As a result, the two accounting treatments should be aligned. But a gap in SNA's detail with respect to capitalization appears, in practice, to allow capitalization of costs that IPSAS 31 does not capitalize: [?] research costs, and costs related to some internally generated intangible assets. SNA treats R&D as a single category, with rules about asset recognition applying to R&D as a whole (SNA paragraph 10.103). IPSAS 31 divides R&D into "research" and "development," defining each category, then specifying asset recognition for each category, with "research" costs <i>always</i> expensed. SNA also does not provide the same level of guidance on internally generated intangible assets as does IPSAS 31, with the result that there may be differences in practice.</p> <p>Status: Issue resolved. At a standards level, SNA and IPSAS treatments are the same. <u>Further work possible:</u> There is scope to provide further guidance in the GFSM (for inclusion in the 2012 revised GFSM) to address the possibility of differences in practice. (See Issue C6 in Category C, Resolution Possible—GFS/ESA.) Developments should be monitored, because there is a risk that R&D treatment could go out of alignment. The risks are from (a) Eurostat Task Force consideration of capitalization of costs related to "blue sky" research, and, (b) the IPSASB's Conceptual Framework Project, where changes to the definition of an "asset" may mean movement away from the present IPSAS approach to R&D capitalization.</p>
B) Scope for increasing alignment through changes to IPSASs	
<p>B1. Reporting entity definition IPSAS 6, SNA 4.127-4.148</p>	<p>Progress: Statistical guidelines aim to report on the whole government or public sector, including the general government sector, the public corporations sector, and all their subsectors. The national accounts produced for statistics include financial information from all such entities within these sectors. By contrast, IPSAS reports on all entities controlled by the reporting government. For example, where lower levels of government (for example, local authorities, or state and provincial governments) are not controlled by the national government, those uncontrolled entities are not included in the government's financial report. Controlled nonresident activities could also be included in the consolidated report under IPSAS, but their activities are only included in national accounts under certain circumstances, for example, special purpose entities established abroad by governments.</p> <p>Status: There is scope to align the definition of "control" in IPSAS 6 with the SNA definition. This work has been included in the IPSASB's project to revise IPSASs 6, 7, and 8. The basic conceptual difference will remain.</p>
<p>B2. Currency on issue/seigniorage GFSM 2010</p>	<p>Progress: The IPSASB has discussed development of guidance on this topic (treated as a public sector-specific financial instrument), but timing is unknown.</p> <p>Status: Work on this issue has been included in an IPSASB project on public-specific financial instruments.</p>
<p>B3. Subscriptions to international organizations SNA para 22.100; GFSM 2010; 2010 proposal for MGDD. (MGDD chapter III)</p>	<p>Progress: The SNA treatment has moved to an accruals basis, which brings it closer to IPSAS generally. But IPSAS does not specify the treatment of different types of subscriptions. The 2008 SNA indicates that transactions with international and supranational organizations, including membership dues and subscription fees payable to international organizations, may not be treated as transfers but as payments for a service, recorded on an accrual basis. Exceptionally, and when there is a possibility (even if unlikely), of repayment of the full amount, the payment may be represented as a financial asset. Similar guidance in the updated GFS will clarify that, depending on their nature, "subscriptions" to international nonmonetary organizations could give rise to expenses.</p> <p>Status: Work on this issue has been included in an IPSASB project on public sector-specific financial instruments. Eurostat has published guidance on one type of subscription in Chapter 5 of its manual on Government Deficit and Debt. The guidance records as expenditure all subscriptions to facilities of international organizations that provide concessionary loans.</p>

Issue	Progress since 2005, and Status as of January 2012
B4. Inventory measurement IPSAS 12, SNA 10.118 – 10.148	<p>Progress: IPSAS and SNA remain different. SNA requires market values. IPSAS 12, <i>Inventories</i>, generally requires measurement at cost. (The rule is “the lower of cost and net realizable value,” except in certain circumstances where it is the lower of cost and current replacement cost. “Cost” will usually be used, because it will be the lower value.)</p> <p>Status: An IPSAS 12, <i>Inventories</i>, change (to require net realizable value) has been included in the IPSASB’s 2013 Annual Improvements Project.</p>
B5. Defense weapons – capitalization and classification IPSAS 12, IPSAS 17, SNA 10.87, 10.144 and A3.55-58	<p>Progress: As stated above, SNA changes have met recommendations on capitalization and classification, but there is scope to provide more guidance in this area.</p> <p>Status: Issue resolved. No remaining differences. <u>Further work possible:</u> There is scope to provide more guidance and clarification on (a) when defense weapons should be classified as PP&E, and when as inventory, (b) when defense items should be capitalized rather than expensed, and, (c) how to value long-lived, specialized assets for which market prices are unavailable. Provision of further clarification/guidance has been included in the IPSASB’s 2013 Annual Improvements Project</p>
B6. Measurement of assets, liabilities and net assets/equity IPSAS 7, IPSAS 12, IPSAS 19, IPSAS 29, SNA 13.16-13.25	<p>Progress: The gap between the SNA’s comprehensive requirement for fair value and the IPSASs’ mixture of fair value and historic cost has reduced.</p> <p>Status: There is scope to make progress with respect to current value measurement, by improving the consistency of approaches to current value measurement and the related guidance. Phase 3 of the IPSASB Conceptual Framework, where measurement concepts are being considered, may provide increased scope for the use of current value measurement within IPSASs. Discussions on measurement between the IPSASB, the IVSC, and the statistical community representatives could improve the consistency of valuation and measurement guidance.</p>
B7. Transaction costs: Costs of disposing of nonfinancial and financial assets	<p>SNA expenses all asset costs related to financial assets, while IPSAS requires such costs to be expensed in some cases and capitalized in other cases. IPSAS changes could address differences.</p>

Issue	Progress since 2005, and Status as of January 2012
<p>B8. Financial statements: presentation (Including classification, and aggregates.) IPSAS 1, SNA chapter 18</p>	<p>Progress: To address the first type of presentation difference described below, an IPSAS project to split the comprehensive result into two components—aligned with the transactions/other economic flows distinction in the SNA—was recommended. But the IPSASB has not adopted a comprehensive income approach for presentation of performance. The 2008 SNA retains the distinction between transactions and other economic flows. To address the cash surplus/deficit example below, it was proposed that the improved IPSAS 2, <i>Cash Flow Statements</i>, provide an alternate GFS presentation, but that has not occurred. So differences are likely to remain.</p> <p>Financial statement presentation differences:</p> <ul style="list-style-type: none"> (a) <i>Statement location:</i> Presentation of reported amounts in different financial statements. For example, IPSAS and SNA present value changes due to remeasurement of investments in unquoted shares in different statements. (b) <i>Aggregates in statements:</i> Presentation of aggregates that are either (a) defined differently, or (b) have no equivalent in the other reporting system. (For example, IPSAS and GFS differ on the notion of “cash surplus/deficit” in the Statement of Cash Flows.) Differences in aggregates can also result from recognition or classification differences. For example, the GFSM includes expenditures in the cash flow statement that are not reported as cash flows under IPSAS. (For example, notional cash flows such as finance leases are included.) These differences change the overall aggregates reported. <p>Status: Subject to development of the IPSASB Conceptual Framework, there may be scope to resolve income/financial performance reporting differences, if the IPSASB decides to take a “comprehensive income” approach to presenting income. A possible amendment to IPSAS 2, <i>Cash Flow Statements</i>, could support alignment for cash flow presentation. <u>Management of differences:</u> There is scope to manage these differences through mapping amounts from the IPSAS financial statements to the appropriate SNA statements. AASB 1049 provides a way to manage cash flow statement differences.</p>
<p>B9. Investments in unquoted shares: Presentation of remeasurement gains/losses IPSAS 1, SNA 12.73 – 12.121</p>	<p>Progress: The measurement issue has been resolved. Differences exist with respect to where losses and gains should be reported (i.e., in which financial statement).</p> <p>Status: These differences could be resolved through IPSAS 1 changes. Treatment of gains and losses has been discussed within the context of the IPSASB's Conceptual Framework. <u>Management of differences:</u> There is scope to manage these differences through mapping amounts from the IPSAS statements to the appropriate SNA statements.</p>

Issue	Progress since 2005, and Status as of January 2012
C) Scope for increasing alignment through changes to GFS reporting guidelines	
C1. Measurement of assets, liabilities and net assets/equity IPSAS 7, IPSAS 12, IPSAS 19, IPSAS 29, SNA 13.16-13.25	<p>Progress: The gap between the SNA's comprehensive requirement for fair value and the IPSASs' mixture of fair value and historic cost has reduced.</p> <p>Status: There is scope to make progress with respect to current value measurement, by improving the consistency of approaches to current value measurement and the related guidance. Discussions on measurement between the IPSASB, the IVSC and the IMF/Eurostat could improve the consistency of valuation and measurement guidance.</p>
C2. Extractive industries exploration & evaluation; development & production IFRS 6, IPSAS 29, SNA 10.106-10.108; 13.49, 13.50	<p>Progress: GFSM 2012 will clarify the treatment, based on the 2008 SNA treatment of contract leases and licenses. IFRS 6 applies, through the IPSAS hierarchy. IPSAS 29 requires recognition at fair value for forward sales arrangements.</p> <p>Status: Clarification of statistical guidance, for example, changes included in GFSM 2012 to clarify treatment based on the 2008 SNA treatment of contract leases and licenses, will support further alignment.</p>
C3. Decommissioning/restoration costs IPSAS 17, SNA 10.51(f)	<p>Progress: 2008 SNA (paragraphs 10.51-10.55) includes decommissioning/restoration costs as costs incurred on acquisition and disposal of assets. Such guidance will be included in the revised GFSM 2012.</p> <p>Status: There is scope to resolve this issue through changes to GFS/ESA. Revisions to guidelines to reflect 2008 SNA with supporting detail consistent with IPSAS 17, <i>Property, Plant and Equipment</i>, would achieve alignment.</p>
C4. Public-private partnerships (PPPs) (e.g. BOOT schemes) IPSAS 32, SNA 22.154-22.163; A4.64	<p>Progress: IPSAS has clarified its treatment, but the treatments (IPSAS and SNA) remain different.</p> <p>2008 SNA (paragraph 22.154-22.163 clarified the treatment of PPPs in government, but left the approach quite open. SNA states that the guidance is illustrative rather than prescriptive and further development awaits issuance of standards being developed by the IASB and IPSASB. In 2011, the IPSASB issued an IPSAS dealing with "Service Concessions Arrangements" (SCAs), which include PPPs and also what the ESA/SNA call "SCAs." The IPSAS approach focuses on control. According to the ESA, (a) "SCAs" involve third party revenue, and (b) ESA treatment for "SCAs" (all assets usually end up with the operator) is different from PPP treatment, where PPP assets are classified on the basis of risks and rewards.</p> <p>Status: Scope to resolve: The newly released IPSAS on service concessions, IPSAS 32, has established IPSAS treatment with which statistical guidelines could be aligned. The SNA has this issue on its research agenda. The timing is unknown. (Note: There is no worldwide agreement among statisticians on the treatment of PPPs and service concessions.)</p>
C5. "Subscriptions" to international organizations GFSM 2010, SNA 22.100, proposal for MGDD. (MGDD chapter III)	<p>Progress: The SNA treatment has moved to an accruals basis, which brings it closer to IPSAS generally. But IPSAS does not specify the treatment of different types of subscriptions. This issue is included above as "B3," where it is described in more detail.</p> <p>Status: Eurostat has recently completed guidance on subscriptions to multilateral development banks. (See Chapter 5 of its manual on Government Deficit and Debt.) The guidance records as expenditure all subscriptions to facilities of international organizations that provide concessionary loans. After the IPSASB has addressed this topic (see B3 above), the statistical reporting community could consider alignment with the approach developed, if that approach is different.</p>

Issue	Progress since 2005, and Status as of January 2012
C6. Costs associated with R&D and other intangible assets IPSAS 31, SNA 10.98-10.117, 13.33, 13.36, and A.4.52	<p>Progress: The recommendation that R&D that provides an economic benefit be recognized as an asset has been met. (See Issue A8 above for further detail on progress.) A gap in SNA's detail with respect to capitalization appears, in practice, to allow capitalization of costs (research costs, and costs related to some internally generated intangible assets) that IPSAS 31 does not capitalize.</p> <p>Further information: SNA does not provide the same level of guidance on internally generated intangible assets, as does IPSAS 31, with the result that there may be differences in practice. (See Issue A8 above for further detail.)</p> <p>Status: At a standards level, SNA and IPSAS treatments are the same. There is scope to provide further guidance (for example, in the revised GFSM 2012) in order to address the possibility of differences in practice.</p>
C7. Low-interest and interest-free loans IPSAS 23, IPSAS 29, SNA 22.123-22.124, A4.44	<p>Progress: The measurement of these loans is now aligned. An IPSAS to address non-exchange revenue, IPSAS 23, has been issued. IPSAS 23 and IPSAS 29 deal with concessionary loans. The entity needs to assess whether an arrangement is an exchange or non-exchange transaction. Normal impairment applies. 2008 SNA, (paragraph 22.123-22.124) defines concessionary terms and states that concessionary interest rates to a foreign government could be seen as providing a transfer equal to the difference between the actual interest and the market equivalent interest. If such a transfer is recognized, it is usually recorded as current international cooperation. The interest recorded would be adjusted by the same amount.</p> <p>But a difference remains with respect to where amounts are reported. The means of incorporating the impact on the SNA has not been developed and, until this is done, information on concessionary debt is shown in supplementary tables. IPSAS includes this information in the financial statements.</p> <p>Status: The treatment of concessionary loans is on the research agenda of the SNA, and Eurostat is trying to resolve this issue. This difference can be managed through transfer of amounts captured through an IPSAS information system into SNA supplemental tables.</p>
D) Differences that will need to be managed through data collection	
D1. Reporting entity definition IPSAS 6, SNA 4.127-4.148	<p>Progress: Statistical guidelines aim to report on the whole of the government or public sector, including the general government sector, the public corporations sector, and all their subsectors. The national accounts produced for statistics include financial information from all such entities within these sectors. By contrast, IPSAS reports on all entities controlled by the reporting government. (Further detail on this difference is provided under A1 above.)</p> <p>Status: The basic conceptual difference remains, and will need to be managed through identifying data that relates to the GGS.</p>

Issue	Progress since 2005, and Status as of January 2012
D2. Recognition criteria	<p>Progress: Significant progress has occurred on aligning IPSAS and SNA recognition criteria, as indicated for different specific issues in Category A above.</p> <p>Status: Difference remain, and will need to be managed. <u>Further information:</u> Some specific differences remain, and these will need to be managed. Generally speaking, IPSAS is likely to have recognized items that SNA either (a) does <i>not</i> recognize (for example, certain types of provisions), or (b) recognizes <i>later</i> than IPSAS, in subsequent reporting periods (for example, expenses related to nonperforming loans). Management of such differences generally involves <i>subtracting</i> IPSAS values to reach an SNA-desired result. Additional disclosures in IPSAS and/or CoA design—to allow identification of the items that need to be subtracted—facilitate production of SNA reports from IPSAS data.</p>
D3. Measurement of assets, liabilities and net assets/equity (Fair value versus historic cost) IPSAS 7, IPSAS 12, IPSAS 19, IPSAS 29, SNA 13.16 – 13.25	<p>Progress: The gap between the SNA's comprehensive requirement for current market value and the IPSASs' mixture of fair value and historic cost has reduced. IPSAS 7, <i>Accounting for Investments in Associates</i>, requires fair value when an intention to sell an investment within 12 months exists. IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i>, requires fair value on initial recognition, then allows fair value for financial assets through income (so long as designation criteria are met, which would normally be the case), and "held for sale" assets through equity. Financial liabilities can be measured at fair value. But IPSAS 12, <i>Inventories</i>, requires the lower of cost and net realizable value. IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>, retains the "best estimate" approach. IPSAS 29 states that assets held to maturity, loans, and receivables are valued at amortized cost.</p> <p>Status: In the short to medium term, the IPSAS use of historic cost is expected to remain, and will need to be managed. Choice of fair value options within IPSASs, use of disclosed fair values (where IPSASs require such disclosures), or valuations specifically for statistical reporting are ways to address this difference. <u>Further information:</u> This issue is also included in Category C Resolution Possible—GFS/ESA, and Category B Resolution Possible—IPSAS above.</p>
D4. Financial statements: presentation (Including classification, and aggregates.) IPSAS 1, SNA chapter 18	<p>Progress: To address the first type of presentation difference, described below, an IPSAS project to split the comprehensive result into two components—aligned with the transactions/other economic flows distinction in the SNA—was recommended. But the IPSASB has not adopted a comprehensive income approach for presenting performance. The 2008 SNA retains the distinction between transactions and other economic flows. To address the cash surplus/deficit example below, it was proposed that the improved IPSAS 2, <i>Cash Flow Statements</i>, provide an alternate GFS presentation, but that has not occurred. So differences are likely to remain.</p> <p>Financial statement presentation differences: 1) <i>Statement location:</i> Presentation of reported amounts in different financial statements. For example, IPSAS and SNA present value changes due to remeasurement of investments in unquoted shares in difference statements.) 2) <i>Aggregates in statements:</i> Presentation of aggregates that are either (a) defined differently, or (b) have no equivalent in the other reporting system. (For example, IPSAS and GFS differ on the notion of "cash surplus/deficit" in the Statement of Cash Flows.) Differences in aggregates can also be a consequence of recognition or classification differences. For example, the GFSM includes expenditures in the cash flow statement, which are not reported as cash flows under IPSAS. (For example, notional cash flows such as finance leases are included.) These differences change the overall aggregates reported.</p> <p>Status: Resolution of income/financial performance reporting differences may be possible in the longer term, if the IPSASB decides to take a "comprehensive income" approach to presenting income. Other presentation differences are not able to be resolved. <u>Management of differences:</u> There is scope to manage these differences through mapping amounts from the IPSAS financial statements to the appropriate SNA statements. AASB 1049 provides a way to manage cash flow statement differences.</p>

Issue	Progress since 2005, and Status as of January 2012
<p>D5. Provisions arising from constructive obligations IPSAS 19, SNA 17.207-17.214</p>	<p>Progress: The gap between SNA and IPSAS was reduced when the 2008 SNA (paragraphs 17.207-17.214) introduced a three-way treatment of guarantees. One of the categories, standardized guarantees, is now treated similarly to non-life insurance, and provisions for claims recognized. In all other cases, constructive obligations are not recognized. Instead, some contingencies are recorded as memorandum items. IPSAS recognizes all constructive obligations that meet the recognition criteria (probable outflow that can be reliably measured).</p> <p>Status: Additional disclosures in IPSASs and/or CoA design facilitate subtraction of amounts for production of SNA reports.</p>
<p>D6. Prior period adjustments/back casting – correction of errors IPSAS 3, SNA 18.11-18.13</p>	<p>Progress: Statistics needs restatement of the time series (many past years). Financial statements generally only report comparatives for the previous year, and IPSAS previously only addressed restatement of one prior year. Progress has occurred through issuance of the improved IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, which requires restatement for as many prior periods as are reported. IPSAS 3 states that changes should be made to “the earliest period presented, and the other comparative amounts disclosed for each prior period presented.” Scope exists in IPSAS 3 to conclude that it is “impracticable” to apply a policy retrospectively. This may mean that, in practice, there could be a difference between IPSAS and statistical reporting.</p> <p>Status: Management of this issue is required to provide the time series data. The Australian approach for a change in accounting policy is that the change will be recognized following GAAP, with the statistical accountants then applying back casting through the time series, for the national accounts.</p>
<p>D7. Nonperforming loans, IPSAS 29, (SNA 11.130, 13.66</p>	<p>Progress: Progress has involved clarification of practices, but differences remain.</p> <p><u>Further information:</u> Note that “loan” has a specific meaning for the SNA. A “loan” is a nonmarketable instrument, implying that it cannot be valued using market values. IPSAS 29 requires that loans and other receivables be assessed for impairment and, if evidence indicates impairment, a provision created, with the decrement in value going to revenue. Where the loans are measured at amortized cost, the loans are assessed at every reporting date for impairment. The impairment is calculated based on the present value of the estimated future cash flows, discounted using the original effective interest rate. Any impairment losses are either recognized as a direct reduction of the asset, or through the use of an allowance account. 2008 SNA (paragraph 11.130) recommends that when a loan is not performing, this should be disclosed as a memorandum item, rather than recognized, while paragraph 13.66 elaborates on identifying these. In practice, no provision will exist until both counterparties agree to debt relief (a mutually agreed write-off). Therefore, there is a difference in terms of (a) ongoing <i>valuation</i> prior to write-off; and (b) <i>timing</i> of write-offs. With respect to ongoing valuation, IPSASs show decreases over time, but SNA does not do this. With respect to the timing of a loan write-off, both treatments will have written off the loan and be equivalent at the SNA write-off point, i.e., when both parties mutually agree that the loan should be written off. But IPSAS could have already written off the loan earlier than this point, based on the loan recipient’s assessment of the loan’s worth. SNA has the principle of <i>symmetry</i> between loan recipient and lender, which means that equivalent amounts must be reported in their different statements, and the recipient/preparer <i>cannot</i> write off the loan until the lender acknowledges that the loan will not be repaid (and vice versa). A note to the accounts can be included to indicate a problem with the loan, but the loan cannot be written off in the recipient’s books until the same thing happens in the lender’s books. Because symmetry is fundamental to the SNA, the SNA treatment will not change.</p> <p>Status: Difference expected to remain, and will need to be managed.</p>

Issue	Progress since 2005, and Status as of January 2012
<p>D8. Biological assets (living animals and plants)</p> <p>IPSAS 27, SNA 10.11, 10.88-10.96, 10.139 - 140</p>	<p>Progress: The issuance of IPSAS 27, <i>Agriculture</i>, brought IPSAS closer to the 2008 SNA, and facilitated the production of statistical information from IPSAS information. Measurement and recognition differences that previously existed have been eliminated by changes in both the SNA and IPSAS, with no significant differences remaining. <i>Classification:</i> SNA and IPSAS both classify as fixed assets those biological assets used repeatedly or continuously to produce other products, such as fruit or dairy products. SNA classifies “animals and plants for one-time use, such as cattle raised for slaughter and trees grown for timber” as inventories rather than fixed assets (refer to SNA para 13.41). By contrast, IPSAS would classify these assets as fixed assets, until they are harvested/slaughtered, at which point they become “agricultural produce,” which is classified as inventory. An exception to the SNA inventory classification is where one-time use assets are produced for a reporting entity’s own use, or expected to be transferred to others who will then treat the assets as fixed assets. In that case, those assets are classified as gross fixed capital formation by a producing unit (refer to 10.140).</p> <p>Status: Classification difference expected to remain, and will need to be managed. To facilitate management of the classification difference above, IPSAS 27 requires disclosure of bearer and consumable biological assets in the notes to the statements (IPSAS 27 para 39), so that an entity can reclassify its consumable biological assets as inventory when preparing its statistical report.</p>
<p>D9. Net assets/equity</p> <p>SNA 11.83</p>	<p>Progress: 2008 SNA continues to treat equity as a liability.</p> <p>Status: Difference expected to remain, and will need to be managed.</p>
<p>D10. Contributions from owners, for commercial government operations</p> <p>IPSAS 1, 23, SNA 11.83-11.93</p>	<p>Progress: 2008 SNA paragraphs 11.83–11.93 elaborate about equity injections, and identify certain cases where equity injections should be treated as expenses, for example, equity injections provided to cover losses. IPSAS 1, <i>Presentation of Financial Statements</i>, and IPSAS 23, <i>Revenue from Non-Exchange Transactions</i>, deal with contributions from owners, including designation. IPSAS 23 does not deal with contributions from a re-structure.</p> <p>Status: Difference expected to remain, and will need to be managed. IPSAS and SNA agree conceptually on capital injections, but IPSAS makes identification by reference to legal description. SNA focuses on economic substance.</p>
<p>D11. Transactions between the Central Bank and government entities.</p>	<p>Complexities in terms of (a) transactions between the Central Bank, the national government, and other government entities, and (b) a wider set of issues related to the Central Bank, will need to be identified and appropriately addressed.</p>

Appendix C: GFS and IPSAS Presentational Differences

	GFS - Balance sheet	IPSAS - Statement of Financial Position
Non-financial assets	<i>Produced non-financial assets</i>	Non-current assets
	Fixed assets	Property, plant & equipment
	Inventories	Investment property
	Valuables	*Biological assets
	<i>Non-produced non-financial assets</i>	Intangible assets
Financial assets	<i>Domestic financial assets</i>	Financial assets
	Currency and deposits	*Finance lease receivable
	Debt securities	*Employee benefits
	Loans	Investments accounted for using equity method
	Equity and investment fund shared/units	<i>(Other line items if necessary)</i>
	Insurance, pension and standardized guarantee schemes	Current assets
	Financial derivatives and employee stock options	Cash and cash equivalents
	Other accounts receivable	Receivables from non-exchange transactions
	<i>Foreign financial assets</i>	Receivables from exchange transactions
	Currency & deposits	Inventories
	Debt securities	*Finance lease receivables
	Loans	Other financial assets
	Equity and investment fund shared/units	<i>(Other line items if necessary)</i>
	Insurance, pension and standardized guarantee schemes	
	Financial derivatives and employee stock options	
	Other accounts receivable	
	<i>Monetary gold and Special Drawing Rights</i>	Total assets
Liabilities		Liabilities
<i>Domestic</i>	Currency & deposits	<i>Current liabilities</i>
	Debt securities	Financial liabilities
	Loans	Taxes and transfers payable

	GFS - Balance sheet	IPSAS - Statement of Financial Position
	Equity and investment fund shared/units	Payables under exchange
	Insurance, pension and standardized guarantee schemes	Provisions
	Financial derivatives and employee stock options	<i>(Other line items if necessary)</i>
	Other accounts payable	
<i>Foreign</i>	Special Drawing Rights	<i>Non-current liabilities</i>
	Currency & deposits	Financial liabilities
	Debt securities	*Finance lease obligations
	Loans	Provisions
	Equity and investment fund shared/units	*Employee benefits
	Insurance, pension and standardized guarantee schemes	<i>(Other line items if necessary)</i>
	Financial derivatives and employee stock options	Total liabilities
	Other accounts payable	
Net financial worth	<i>Total financial assets less liabilities</i>	
Net worth	<i>Total assets less liabilities</i>	Net assets (total assets less total liabilities i.e. equity)

GFS - Government Operations Table	IPSAS - Statement of Financial Performance
<u>Transactions affecting net worth</u>	
Revenue (Transactions increasing net worth)	Revenue
Taxes	IPSAS allows a classification of revenue appropriate to the entity and taking account of the materiality of the items to be disclosed
Social contributions	
Grants	
Other revenue	
	Total Revenue
Expenses (Transactions decreasing net worth)	Expenses
Compensation of employees	IPSAS allows a classification appropriate to the entity based on either nature or function and taking account of materiality of the items to be disclosed
Use of goods and services	
Consumption of fixed capital	
Interest	

GFS - Government Operations Table	IPSAS - Statement of Financial Performance
Subsidies	
Grants	
Social benefits	
Other expense	
	Finance costs
	Total Expenses
	<i>[This would be depreciation in IPSAS and part of use of goods and service]</i>
Net /gross operating balance	Surplus/(deficit) for the period
<u>Transactions in non-financial assets</u>	Under IPSAS
Net acquisition of non-financial assets	1 Holding gains or losses on current assets (whether financial or non-financial and whether realized or unrealized) are part of surplus/deficit
Produced nonfinancial assets	2 Realized and unrealized holding gains or losses on assets and liabilities are shown as part of surplus/deficit except that unrealized gains (e.g. revaluation) on fixed assets are shown directly as changes in equity and not included in surplus or deficit
Fixed assets	3 Cash flows resulting from acquisitions or disposals of assets are part of cash flow statement. Any gain or loss on disposal is a realized holding gain or loss and as such is shown as part of surplus/deficit
Change in inventories	4 Nonproduced assets are not separately identified and hence are treated according to above rules
Valuables	
Nonproduced nonfinancial assets	
Net lending / borrowing	
TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING)	
Net acquisition of financial assets (acquisitions less disposals)	
<i>Domestic (according to instrument)</i>	
<i>Foreign (according to instrument)</i>	
Net incurrence of liabilities (incurrences less disposals)	
<i>Domestic (according to instrument)</i>	
<i>Foreign (according to instrument)</i>	

GFS - Statement of Other Economic Flows	IPSAS - Statement of Changes in Net Assets/Equity
Changes in Net Worth Resulting from Other Economic Flows	Balance [year end] 31, 20XX-1
Nonfinancial assets	Gain or loss on property revaluation
Holding gains	Gain or loss on revaluation of investments
Other volume changes	Exchange differences on translating foreign operations
Financial assets	Net revenue recognized directly in net assets/equity
Holding gains	Surplus for the period
Other volume changes	Total recognized revenue and expense for the period
Liabilities	Balance at [year end], 20XX carried forward
Holding gains	Changes in accounting policy and or prior period error(s)
Other volume changes	Restated balance
	Changes in net assets/equity for 20XX

GFS - Statement of Sources and Uses of Cash	IPSAS – Statement of Cash Flows
Cash receipts from operating activities	Receipts
Taxes	Taxation
Social contributions	Sales of goods and services
Grants	Grants
Other receipts	Interest received
	Other receipts
Cash payments for operating activities	Payments
Compensation of employees	Employee costs
Purchase of goods and services	Superannuation
Interest	Suppliers
Subsidies	Interest paid
Grants	Other payments
Social benefits	
Other payments	
Net cash inflow from current operations	Net cash flows from operating activities
Cash flows from investments in non-financial assets	Cash flows from investing activities

GFS - Statement of Sources and Uses of Cash	IPSAS – Statement of Cash Flows
Purchase of non-financial assets	Purchase of plant and equipment
Produced nonfinancial assets	
Fixed assets	Proceeds from sale of plant and equipment
Strategic stocks	Proceeds from sale of investments
Valuables	Purchase of foreign currency securities
Nonproduced nonfinancial assets	
<i>Net cash outflow from investments in nonfinancial assets</i>	<i>Net cash flows from investing activities</i>
Cash surplus/deficit	
Cash flows from financing activities	Cash flows from financing activities
Net acquisitions of financial assets other than cash	Proceeds from borrowings
<i>Domestic (according to instrument)</i>	Repayment of borrowings
<i>Foreign (according to instrument)</i>	Distribution/dividend to government
Net incurrence of liabilities	
<i>Domestic (according to instrument)</i>	
<i>Foreign (according to instrument)</i>	
Net cash inflow from financing activities	Net cash flows from financing activities
Net changes in stock of cash	Net increase/(decrease) in cash and cash equivalents
Reconciliation part of balance sheet	Cash and cash equivalents at beginning of period
	Cash and cash equivalents at end of period

Appendix D: Useful Resources

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