

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: New York, USA

Meeting Date: December 3–6, 2012

Agenda Item 5

For:

☐ Approval

☒ Discussion

☐ Information

Financial Statement Discussion and Analysis

Objective(s) of Agenda Item

1. The objectives of this session are to:
 - (a) **Obtain directions** from the IPSASB on the proposed draft IPSAS XX, *Financial Statement Discussion and Analysis*; and
 - (b) **Confirm** its tentative decision at the September 2012 meeting to develop ED 47 into an authoritative standard.

Material(s) Presented

Agenda Item 5.1	Issues Paper
Agenda Item 5.2	Draft IPSAS XX, <i>Financial Statement Discussion and Analysis</i> Marked-Up Version
Agenda Item 5.3	Draft IPSAS XX, <i>Financial Statement Discussion and Analysis</i> Clean Version—Core Text and Implementation Guidance Only

Background

2. The IPSASB considered a detailed review of the responses to ED 47 as its September 2012 meeting. The draft minutes from this meeting are in the Appendix.

Action(s) Requested

3. The IPSASB is asked to consider the “Matters for Consideration” in Agenda Paper 5.1 and provide directions to enable further development of IPSAS XX.

Appendix: Extract from the draft September 2012 Meeting Minutes

1. Financial Statement Discussion and Analysis (Agenda Item 6)

Review Responses to Exposure Draft

The IPSASB considered 37 responses to ED 47, *Financial Statement Discussion and Analysis*.

The IPSASB agreed with staff's assessment that there was overall support for continuing to develop the material because financial statement discussion and analysis (FSDA) is important to understanding an entity's financial statements.

ED 47 set out seven SMCs, The IPSASB considered staff proposals on those SMCs as noted below.

SMC 1 – Issue as an IPSAS

ED 47 proposed that the material should be issued as a mandatory IPSAS that would be followed whenever an entity prepared IPSAS accrual-based financial statements. SMC 1 asked respondents if they agreed that the guidance should be published as an IPSAS.

Respondents were roughly evenly split on whether it was appropriate to issue an IPSAS at the present time. Staff proposed therefore that the guidance be issued as a different form of pronouncement, such as a RPG as was suggested by some respondents. Staff noted that the ED assumed an entity would be subject to an audit following the IFAC's International Standards on Auditing (ISAs), to which a respondent took exception. Some members noted that entities would be subject to some form of assurance, even if the standards followed are not the ISAs.

Ian Mackintosh, the IASB Observer, pointed out that the private sector regulators generally mandated the requirement to produce management commentary. The IFRS believes it is up to individual jurisdictions to make their own judgments on matters such as which entities should present management commentary, whether the inclusion of management commentary with the financial statements is necessary to asset compliance with IFRSs, and the level of assurance to which management commentary should be subjected. It was noted that in the public sector, FSDA may also be subject to a legislative or other requirement to prepare FSDA.

Mr. Mackintosh also expressed concern that it is hard to draw a line around what is within the scope of FSDA and that the IPSASB may not have the knowledge and experience to set standards for disclosures that go beyond the financial statements.

Many respondents noted problems with asserting compliance with IPSASs if they did not follow the proposed IPSAS on FSDA, and with related issues regarding the financial statement audit. A member pointed out that in his jurisdiction a qualified opinion could be provided on the financial statements indicating that the financial statements are presented fairly "except for the FSDA". Some members noted that the audit/assurance issue is not the main reason for not issuing an IPSAS.

The Chairman asked members to describe their jurisdiction's FSDA practice. Members noted a variety of regimes ranging from no requirement, to voluntary preparation, to mandatory preparation as part of the financial statements with an audit opinion.

Some members indicated that in their jurisdiction, the audit community had indicated they would have difficulty in auditing FSDA, based on the imprecise requirements in ED 47.

Some members expressed a similar concern with the level of precision for FSDA content set out in ED 47 and noted that work would need to be done on ED 47 to increase the precision of the required content. It was also noted that it would be possible to comply with the FSDA pronouncement with a wide variety of disclosures among entities because of the flexibility permitted under the ED 47 requirements.

A member reiterated a previous concern that the IPSASB should first consider whether a separate suite of pronouncements should be used for the other types of general purpose financial reports (GPFRs) being proposed. It was noted, however, that this approach could create confusion about the levels of authority among various pronouncements. Some members also expressed the concern that it may not be appropriate to issue the FSDA guidance as an IPSAS because the IPSASB is proposing that guidance on long-term fiscal sustainability should be issued as a RPG. Issuing the FSDA guidance as an IPSAS will open the door to other non-financial statement guidance being issued in IPSASs which could also create further issues with an entity's ability to assert compliance with IPSASs.

Some members noted that FSDA is essential to understanding the financial statements. It was indicated, however, that the guidance could be considered important to understanding the financial statements without being essential to the fair presentation of the financial statements.

Members noted it was important to work with the audit community to determine the specific concerns with a view to improving the material in ED 47 so that it would be capable of being audited.

Staff had also proposed adding more guidance on prospective information if the guidance were issued as a RPG. The IPSASB did not support this proposal in light of the decision to continue to develop the material as an IPSAS.

Tentative IPSASB Positions

The Chairman asked for a show of support for the staff proposal to issue the material as a RPG. The IPSASB disagreed with staff's proposal, and tentatively agreed the guidance should continue to be developed as an IPSAS, taking into account its decisions on other issues below.

The IPSASB also tentatively agreed that guidance should not be provided to require prospective information in FSDA.

SMC 2 – Amendment to IPSAS 1

ED 47 proposed an amendment to IPSAS 1 to clearly distinguish FSDA from the financial statements. Staff proposed retaining the amendment based on some respondents' concerns that FSDA was not clearly distinguished from the notes to the financial statements.

Some members suggested that if FSDA is mandatory, it should be part of the financial statements. A member expressed the view that FSDA is a necessary element of financial statements. It was noted that financial statement users were likely to view FSDA as part of the financial statements regardless of what is indicated in the pronouncement or in the FSDA. A member noted the amendment to IPSAS 1 is important because implementation may be affected in certain jurisdictions if FSDA is specifically included in the financial statements.

Members also noted that IPSAS 1 contains an exemption (paragraphs 31 – 34) to allow entities to not follow an IPSAS if the IPSAS results in misleading information. Guidance is provided on additional disclosures in such circumstances.

Tentative IPSASB Position

The IPSASB tentatively agreed to retain the amendment to IPSAS 1 as was presented in ED 47.

SMC 3 – Distinction of FSDA from Notes and other GPFRs

ED 47 provided some guidance on distinguishing FSDA from the financial statements and from other GPFRs. Some respondents asked for greater clarity. The IPSASB considered, but did not reach conclusion on proposed staff wording. The proposals for greater clarity in the scope of FSDA will be considered at a future IPSASB meeting along with other proposed wording changes.

SMC 4 – Required Content of FSDA

ED 47 proposed minimum required content for FSDA. A number of specific comments were made on the content.

Tentative IPSASB Position

Members agreed it would be appropriate to defer discussion of the changes in content. Such changes should aim to make FSDA disclosure and presentation more precise (in line with SMC 1) taking into account respondents' specific concerns with the content proposed in ED 47.

SMC 5 – Transitional Provisions

ED 47 set out proposed Transitional Provisions for adopting FSDA. The Transitional Provisions were supported by respondents, however some respondents suggested they were not required if the material is not issued as an IPSAS. Staff had proposed deleting the Transitional Provisions if the guidance was issued as a RPG. Staff noted that it would be necessary to take into consideration any first-time adoption issues, in conjunction with the IPSAS first-time adoption project.

Tentative IPSASB Position

The IPSASB tentatively agreed to retain the Transitional Provisions with no changes.

SMC 6 – Implementation Guidance

ED 47 provided Implementation Guidance on the following matters:

- Section A – Applicability of the Qualitative Characteristics of Financial Statements to FSDA
- Section B – Examples of Information about the Entity's Financial Statements
- Section C – Examples of Information about Variances and Trends

Staff had proposed (1) retaining Section A, (2) deleting the detailed examples in Section B, and (3) incorporating Section C in the body of the guidance. Members stressed that if Phase 1 is approved before this guidance, and consequential changes were made to IPSAS 1 to include the QCs for GPFRs, Section A may not be required.

It was also noted that the QCs would be considered part of the criteria for FSDA in assurance purposes.

Tentative IPSASB Positions

In light of the IPSASB's decision on SMC 1 to continue to develop the guidance as an IPSAS, the IPSASB tentatively agreed to retain the guidance. The IPSASB will reconsider the need for Section A in light of future decisions on Phase 1 of the Conceptual Framework.

Staff will also consider in detail, respondents' comments on the Implementation Guidance content at a future IPSASB meeting.

SMC 7 – Illustrative Example

ED 47 contained an Illustrative Example for a central government entity to help illustrate the intent of the guidance. When ED 47 was approved members noted the negative aspects of providing examples (i.e., that the example would be used as a template for preparation of FSDA that would impede the tailoring of FSDA to the specific circumstances of the entity). It was noted at that time that the example could be deleted from the final pronouncement.

Respondents had a number of specific comments on the example and some suggested developing a second example for a smaller entity.

Staff had proposed deleting the example in light of the earlier concerns about providing detailed examples, the use of the IPSASB resources to develop such an example, and the fact that there are 'best-practice' examples available from other sources. A member indicated that such examples are critical for entities to implement the FSDA guidance.

IPSASB Position

The IPSASB agreed to delete the Illustrative Example.

Definitions

The ED defined FSDA. Respondents to ED 47 suggested certain changes to the definition to clarify the scope of FSDA. Staff had proposed changes to the definition to address respondents' concerns. Staff had also proposed adding a definition of 'prospective information' to support the proposed guidance.

Tentative IPSASB Positions

Members deferred discussion of changes to the definition of FSDA. Members agreed to delete the proposed new definition of 'prospective information'.

Issues Relating to

Draft IPSAS XX, *Financial Statement Discussion and Analysis*

Objectives of this Session

1. The objectives of this session are to:
 - (a) Obtain directions from the IPSASB on the proposed draft IPSAS XX, *Financial Statement Discussion and Analysis*; and
 - (b) Confirm its tentative decision at the September 2012 meeting to develop ED 47 into an authoritative standard.
2. A marked-up version of the draft IPSAS is in Agenda Paper 5.2 and the clean version is in Agenda Paper 5.3.

Structure of this Issues Paper

3. The paper is divided into the following sections:
 - (a) Review of draft IPSAS;
 - (b) Should ED 47 become an authoritative standard;
 - (c) Similarities with the IASB's Practice Statement, *Management Commentary*; and
 - (d) Assurance issues.

Review of Draft IPSAS

4. At its meeting in September 2012, the IPSASB agreed to consider a draft IPSAS at this meeting. Agenda Paper 5.2 presents the marked-up version of the draft IPSAS. The draft IPSAS includes proposed amendments to address both the IPSASB's and respondents' concerns. The draft IPSAS does not include a revised Basis for Conclusions—this will be presented at the March 2013 meeting.
5. The Appendix to this Agenda Paper lists the paragraphs in ED 47 and indicates the proposed changes. The significant amendments are discussed below.

Financial Statement Discussion and Analysis is not a Component of the Financial Statements

6. Paragraph 2A has been inserted in the scope section to make it explicit that financial statement discussion and analysis is not a component of the financial statements, as follows.

“Financial statement discussion and analysis is not a component of the financial statements. IPSAS 1, *Presentation of Financial Statements*, sets out the requirements for the composition of financial statements.”
7. This is to address concerns that financial statement discussion and analysis will be considered to be a part of the financial statements. This paragraph also makes the draft IPSAS consistent with the proposed consequential amendments set out in ED 47 for IPSAS 1, which includes a new

paragraph stating that financial statement discussion and analysis is not a component of the financial statements.

Proposed Additional Section “Key Principles of Financial Statement Discussion and Analysis”

8. Staff proposes to insert a new section “Key Principles of Financial Statement Discussion and Analysis” comprising paragraphs 9A–9E. The purpose of including this section is to make an explicit link between the entity and the definition of financial statement discussion and analysis (paragraph 9A).
9. This proposed new section also brings together existing paragraphs which (a) explain the purpose of financial statement discussion and analysis (paragraph 9B) and (b) require the information to possess the qualitative characteristics (QCs) of general purpose financial reporting (GPFR) (paragraph 9C). ED 47 referred to the QCs in Appendix A of IPSAS 1. This reference has been amended to refer to the QCs in the *Conceptual Framework* rather than IPSAS 1 on the basis that the final paragraphs of Phase 1 will be approved at this meeting (December 2012) and the expectation that Appendix A of IPSAS 1 will be withdrawn following approval of the Phase 1 chapters. A paragraph has been inserted to list the QCs (paragraph 9D). A paragraph (paragraph 9E) has also been inserted to refer to materiality to remind readers of the draft IPSAS that information need only be included in the financial statement discussion and analysis where it is material. This paragraph is based on IPSAS 1.47.
10. The proposed paragraphs are set out in Table 1.

Table 1: “Key Principles of Financial Statement Discussion and Analysis” Section – with Proposed Wording

Key Principles of Financial Statement Discussion and Analysis

- 9A. **An entity’s financial statement discussion and analysis shall provide an explanation of the significant items, transactions, and events presented in the entity’s financial statements and the factors that influenced them.**
- 9B. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users’ to gain an insight on the operations of the entity from the perspective of the entity itself. It also provides the opportunity to reflect the entity’s interpretation of significant events and transactions affecting the financial performance and position of the entity. Therefore, financial statement discussion and analysis complements and supplements the information in the financial statements.
- 9C. **Financial statement discussion and analysis shall include information that possesses the qualitative characteristics of financial reporting.**
- 9D. The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. See Phase 1 of the *Conceptual Framework* for further details.
- 9E. Financial statement discussion and analysis should include only information that is material.

Compliance with Financial Statement Discussion and Analysis IPSAS

11. Paragraph 13A has been inserted in the “Compliance with this IPSAS” section to make it explicit that compliance with this IPSAS does not require an entity to comply with IPSASs applicable to the financial statements, as follows.

“An entity can claim compliance with this IPSAS where it has complied with all of the requirements. This requirement does not mean that an entity also has to comply with IPSASs applicable to the financial statements because (a) financial statement discussion and analysis is not a component of the financial statements listed in paragraph 21 of IPSAS 1 and (b) compliance with IPSASs applicable to the financial statements is dealt with in IPSAS 1.”

12. To address the converse concern that asserting compliance with IPSASs applicable to the financial statements will be problematic where an entity cannot also assert compliance with this IPSAS, an equivalent paragraph 28A is proposed to be inserted in IPSAS 1 (see “Appendix A: Amendments to Other IPSASs” of the draft IPSAS).

Proposed Changes to the “Content of Financial Statement Discussion and Analysis” Section

Minimum Required Content

13. This section has a sub-section titled “Minimum Required Content” and paragraph 15 lists the minimum required content of financial statement discussion and analysis. Staff proposes deleting the “Minimum Required” from the title and deleting the phrase “at a minimum” from paragraph 15 because paragraph 47 of IPSAS 1 states “Applying the concept of materiality means that a specific disclosure requirement in an IPSAS need not be satisfied if the information is not material.” Staff considers that the draft IPSAS should be consistent with this paragraph.

Content of Financial Statement Discussion and Analysis

14. This sub-section of ED 47 explains what type of information an entity should disclose and comprises paragraphs 17B–32. It is divided into four categories:
- (a) Overview of the entity’s operations and environment;
 - (b) Information about the entity’s financial objectives and strategies;
 - (c) Analysis of the entity’s financial statements; and
 - (d) Risks and uncertainties
15. These paragraphs contain explanations of what information may be useful for users. Respondents and some members considered that these paragraphs were not specific enough for a reader to easily understand what is required. To make it clear what is required to be disclosed, staff has added a paragraph at the beginning of each sub-section which sets out the requirement. Requirements are indicated by using the term “shall” and using bold text. The existing paragraphs are set out immediately below the proposed new paragraphs to explain what is meant by the proposed requirement.
16. The proposed new paragraphs are set out in Table 2.

Table 2: Proposed New “Required” Paragraphs in “Content” Sub-section

Overview of the Entity’s Operations and Environment

17B. An entity shall provide an overview of its operations and the environment in which it operates.

Information about the Entity’s Financial Objectives and Strategies

18A. An entity shall disclose its financial objectives and strategies.

Analysis of the Entity’s Financial Statements

20A. An entity shall provide a description of its financial performance for the period and the significant events and transactions that have affected it.

Risks and Uncertainties

26B. An entity shall disclose:

- (a) **Its principal risk exposures;**
- (b) **Changes in those risks since the last reporting date;**
- (c) **Its strategies for bearing or mitigating those risks;**
- (d) **Any underlying assumptions; and**
- (e) **The effectiveness of its risk management strategy.**

Basis for Conclusions

17. Staff has not updated the Basis for Conclusions because the approach to its revision is largely dependent upon confirmation of the tentative view that the guidance will be developed into an IPSAS. The Basis for Conclusions will be revised for the March 2013 meeting.

Implementation Guidance

18. At its September 2012 meeting, the IPSASB discussed whether “Section A: Applicability of the Qualitative Characteristics of Financial Statements to FSDA” (paragraphs A.IG1–A.IG20) would be necessary if Phase 1 of the *Conceptual Framework* project is finalized before this guidance. The final paragraphs of Phase 1 will be presented at this meeting (December 2012) for approval. Staff has assumed that they will be approved with the expectation that Appendix A of IPSAS 1 will be withdrawn following approval of the Phase 1 chapters. Therefore, staff proposes that Section A is deleted. This deletion may need to be reconsidered if the final paragraphs of Phase 1 are not approved. The proposed deletion of Section A is consistent with the proposed changes to paragraphs 9C and 9D of the draft IPSAS.

19. The IPSASB also discussed the staff proposal to delete the detailed examples in “Section B: Examples of Information about the Entity’s Financial Statements” (paragraphs B.IG1–B.IG23) and incorporate “Section C: Examples of Information about Variances and Trends” (paragraphs C.IG1–C.IG9) in the body of the guidance. The IPSASB tentatively agreed to retain this guidance because of its decision to continue to develop ED 47 into an IPSAS. Staff has considered in detail

respondents' comments on the Implementation Guidance and, as a result, has proposed the deletion of paragraphs where:

- (a) Suggested disclosure is required by other IPSASs;
 - (b) Suggested disclosure is in core text of the draft IPSAS;
 - (c) Respondents' have commented that the suggested disclosure is onerous; and
 - (d) The paragraph is a general discussion rather than an example of a disclosure.
20. As a result, the proposed deletions have truncated the Implementation Guidance to seven paragraphs. Staff considers that the remaining paragraphs are unbalanced because they cover only property, plant, and equipment, the use of ratios or indicators, and variances and trends. Furthermore, these paragraphs are not comprehensive on the areas that they cover, e.g., it is not clear why the paragraph on the use of ratios or indicators has chosen those particular ratios. Staff considers that there are two options:
- (a) Delete the entire Implementation Guidance; or
 - (b) Use these seven paragraphs as a foundation for developing further guidance.
21. Staff notes that deleting the Implementation Guidance would be consistent with the IPSASB's decision at its September 2012 meeting to delete the Illustrative Example because it is too detailed and best-practice examples are available from other sources. Staff also notes that the IASB's *Management Commentary* does not include Implementation Guidance because the IASB believes that undue emphasis could be placed on such guidance.
22. If the remaining paragraphs are used as a foundation for developing further guidance, staff asks the IPSASB for direction on what should be included.

Matter(s) for Consideration

1. The IPSASB is asked to conduct a page by page review of the draft IPSAS in Agenda Paper 5.2 and provide feedback on the proposed amendments.

Should ED 47 become an Authoritative Standard?

23. At its September 2012 meeting, the IPSASB tentatively agreed that ED 47 should continue to be developed as an authoritative IPSAS. Some respondents consider that ED 47 should be non-authoritative in nature and some members are also of this view. This section of the Issues Paper sets out some options:
- (a) Confirm that it should be developed into an authoritative IPSAS that entities are required to apply;
 - (b) Use an approach similar to IPSAS 22, *Disclosure of Financial Information about the General Government Sector*; or
 - (c) Use an approach similar to IPSAS 24, *Presentation of Budget Information in Financial Statements*; or
 - (d) Develop ED 47 into a non-authoritative Recommended Practice Guidance (RPG) that entities are encouraged to apply.

Confirm that ED 47 should be Developed into an Authoritative Standard

24. ED 47 requires that an entity preparing and presenting financial statements under the accrual basis of accounting shall also present a financial statement discussion and analysis. However, the ED made it clear that financial statement discussion and analysis is outside of the financial statements. The composition of financial statements is listed in IPSAS 1 which requires a (a) statement of financial position, (b) statement of financial performance, (c) statement of changes in net assets/equity, (d) cash flow statement, (e) notes, and (f) when the entity makes publicly available its approved budget, a comparison of budget and actual amounts.
25. The main argument for developing ED 47 into an authoritative standard is that it provides additional information necessary to meet the objectives of general purpose financial reporting, i.e., for accountability and decision-making purposes.
26. The main argument against developing ED 47 into an authoritative standard is that the financial statements by themselves provide users with sufficient information to understand the financial performance and position of an entity. Financial statement discussion and analysis provides useful additional information that complements and supplements the financial statements but is not essential to understanding the financial statements.

Use an Approach Similar to IPSAS 22

27. IPSAS 22 is a voluntary standard. It applies only to governments which elect to disclose financial information about the General Government Sector (GGS) in the financial statements. When a government elects to do this, it is then required to apply the guidance in IPSAS 22.
28. IPSAS 22 applies only to governments rather than all public sector entities because it deals only with disclosures related to the GGS.
29. The main argument for developing ED 47 into a voluntary standard is that, for entities that elect to present financial statement discussion and analysis, there is comparability between entities and consistency over time.
30. The main argument against developing ED 47 into a voluntary standard is that only some entities will elect to present a financial statement discussion and analysis.

Use an Approach Similar to IPSAS 24

31. IPSAS 24 is an authoritative standard only where an entity is required or elects to make its approved budget publicly available. The requirement to apply IPSAS 24 is similar to the requirement in IPSAS 22 except that it includes an additional circumstance as to when it is required to be applied, i.e., where an entity is **required** to make its approved budget publicly available.
32. ED 47 could be developed so that it is an authoritative standard only where an entity is required or elects to present financial statement discussion and analysis. To adopt this approach, staff considers that ED 47 would require significant modification to ensure that the situation does not arise where the draft IPSAS conflicts with the requirements imposed by a jurisdiction.

Develop ED 47 into Voluntary RPG

33. The IPSASB has developed a new type of pronouncement called "Recommended Practice Guideline" (RPG). This is to accommodate projects such as the reporting on the long-term

sustainability of a public sector entity's finances, which are a part of the more comprehensive scope of general purpose financial reporting outside the financial statements. The RPG represents best practice and entities are encouraged to apply the guidance rather than being a standard which requires application. It is likely that the first RPG will be approved in the first half of 2013.

34. The arguments for and against this are similar to those for IPSAS 22 because IPSAS 22 is a voluntary standard until a government elects to disclose information about the GGS. The standard is then required to be applied.
35. The difference between a standard and voluntary guidance is that voluntary guidance is used where the IPSASB wishes to encourage entities to adopt best practice. This is usually because this area of financial reporting could be seen to be an area where practice is still developing.
36. An analysis of responses was presented at the September 2012 meeting and highlighted that the comments for and against issuing the guidance as an IPSAS were fairly evenly split, with a slight majority expressing a preference for the guidance to be voluntary, using a pronouncement such as an RPG.
37. Staff notes that at the September 2012 meeting, the IASB Observer pointed out that the IASB's *Management Commentary* is voluntary guidance because they believe that it is up to individual jurisdictions to make their own judgments as to whether entities should present a management commentary.
38. For entities that choose to apply the RPG, the existence of this guidance will enhance comparability between entities, and consistency over time. Voluntary guidance also allows for more flexibility than a standard which will help entities in jurisdictions where there are existing requirements for narrative reporting that differ significantly from the guidance in the RPG.
39. Developing ED 47 into a voluntary RPG would also mean that there is consistency between the types of pronouncements that are issued by the IPSASB. Voluntary guidance, such as an RPG, is issued for reports outside the financial statements and pronouncements relating to financial statements are standards (IPSASs). This would help readers of the IPSASB Handbook to differentiate between different types of pronouncements.

Matter(s) for Consideration

2. The IPSASB is asked to confirm its tentative decision to continue to develop ED 47 into an authoritative standard.
3. If the IPSASB decides that ED 47 should not be developed into an authoritative standard, what sort of pronouncement does it support? Options include:
 - (a) Use an approach similar to IPSAS 22, i.e., required to be applied where the entity elects to present financial statement discussion and analysis;
 - (b) Use an approach similar to IPSAS 24, i.e., required to be applied where the where entity is required or elects to present financial statement discussion and analysis; or
 - (c) Voluntary RPG.

Similarities with the IASB's Practice Statement, *Management Commentary*

40. At the commencement of this project the IPSASB considered, under its *Criteria for Modifying IASB Documents*, whether to develop guidance that was converged with *Management Commentary*, the IFRS Practice Statement. The IPSASB did not consider this approach to be appropriate. However, given the similarity of subject matter there are some paragraphs in the draft IPSAS which are based on *Management Commentary*. These paragraphs occur in instances where the needs of users of the financial statement discussion and analysis for public sector entities do not differ from the needs of users of management commentary for for-profit entities.
41. There are approximately eight paragraphs in the draft IPSAS that are very similar in part or whole to those in *Management Commentary* although there are terminology changes to ensure the wording is appropriate in the public sector context. The relevant paragraphs are set out in Table 3.

Table 3: Summary of Similar Paragraphs between the draft IPSAS and *Management Commentary*

Paragraph in Draft IPSAS	Paragraph in Management Commentary	Topic
5A	4	The guidance does not specify the level of assurance to which it should be subjected.
10	23(a)	The content of the guidance should be consistent with the financial statements.
17	22	The form and content of the report will vary dependent upon the nature of the entity and the regulatory environment in which it operates.
18	26	A description of the entity and the environment in which it operates helps users to understand the entity.
19	27	The entity discusses its objectives and strategies.
20	28	The entity discusses significant changes in its objectives and strategies from the previous period.
22	40	Where non-IPSAS indicators are used an entity needs to disclose and explain how they differ from IPSAS measures and why they are relevant.
26B	31	The entity discloses its principal risk exposures and information relating to these exposures.

42. Because the draft IPSAS includes extracts based upon *Management Commentary*, when the guidance is finalized it will include an acknowledgement box relating to the copyright of text from *Management Commentary*. This is consistent with other IPSASs that are adapted from, or contain extracts of, material from IASB publications.

Assurance Issues

43. Several respondents noted problems with asserting compliance with IPSASs applicable to the financial statements if they did not follow the proposed requirements in ED 47. At its September meeting, some members indicated that in their jurisdiction the audit community had indicated they would have difficulty in auditing an entity's financial statement discussion and analysis based on the imprecise requirements in ED 47.
44. Staff is proposing to insert a paragraph which clearly states that the draft IPSAS does not provide guidance on the level of assurance (if any) to which financial statement discussion and analysis should be subjected. Staff has placed this paragraph in the "Scope" section of the draft IPSAS so that it has high visibility.
45. In the meantime, there have been other developments on the assurance issue. The International Auditing and Assurance Standards Board (IAASB) has an IAASB–IASB Liaison working group that helps the IAASB monitor the development of IASB projects to identify financial reporting developments that may affect the pronouncements of the IAASB or create a need for new auditing pronouncements. The IPSASB staff are now working with the IAASB staff to consider how this existing working group could be expanded to take on a similar role for the IPSASB. On that basis it is intended that the draft IPSAS will be sent to the working group for review.
46. This issue of assurance has also been raised by respondents to ED 46, *Reporting on the Long-Term Sustainability of an Entity's Finances* and it is intended that this draft guidance will also be reviewed by the IAASB's working group. It is anticipated that on an ongoing basis the terms of reference of the working group will be modified to add liaison with the IPSASB or that a separate IAASB–IPSASB Liaison working group will be established to address such assurance issues.
47. Staff expects that the results of the review will be available before the March 2013 meeting and therefore any implications on the draft IPSAS will be considered at that meeting.

Appendix: Proposed Changes from ED 47 to Draft IPSAS XX, *Financial Statement Discussion and Analysis*

The table below lists the paragraphs in ED 47 and indicates the proposed changes.

Paragraph	Comment
Objective	
1	The wording in ED 47 is based on IPSAS 1.1. The proposed changes are to make the objective paragraph more concise and are based on paragraph 1 of IPSAS 18, <i>Segment Reporting</i> , which staff considers is closer in nature to this draft IPSAS as it deals with disclosures.
Scope	
2	First sentence: Amended text to be consistent with standard text for scope paragraph and is based on IPSAS 18 because that standard is also about the presentation of information. Second sentence: Amended text to be consistent with the text in draft RPG 1, <i>Reporting on the Long-Term Sustainability of an Entity's Finances</i> .
2A	Inserted to address concerns that FSDA will be considered to be part of the financial statements so this paragraph explicitly states that FSDA is not a component of the financial statements.
3	Moved to paragraph 5C.
4	No change. Standard GBE paragraph.
5	No change. Standard GBE paragraph.
5A	Inserted to be explicit that this standard does not mandate the level of assurance to which FSDA should be subjected.
Identification of Financial Statement Discussion and Analysis	
This section has been moved up—was heading above paragraphs 11 and 12.	
5B	Was paragraph 11. Based on IPSAS 1.61.
5C	Was paragraph 3. Based on IPSAS 1.62. First sentence: Amended so that FSDA is issued “at the same time as” the financial statements because “in conjunction with” does not necessarily mean at the same time. Second sentence inserted to explain that FSDA may be a separate report or part of another report to cover the situation where the auditing requirement is tied to the contents of a certain report rather than specifying the financial statements. In this situation financial statement and analysis would be a separate report.
5D	Was paragraph 12. Based on IPSAS 1.62.

Paragraph	Comment
<u>Requirement for Financial Statement Discussion and Analysis Reporting Period</u>	
Amended heading to be consistent with the content of paragraphs 6 and 7. It is also consistent with the heading above IPSAS 1.66.	
6	First sentence: Inserted to be explicit that an FSDA is presented annually and for the same reporting period as that used for the financial statements. Based on IPSAS 1.66. Second sentence: Editorial change.
7	Second sentence: Deleted as it is not relevant. Last sentence: Editorial changes.
Definition	
8	Editorial change.
<u>Qualitative Characteristics</u>	
Deleted because related paragraph has been moved.	
9	Moved to paragraph 9C.
<u>Key Principles of Financial Statement Discussion and Analysis</u>	
Inserted so that there is a section on key principles of FSDA.	
9A	Inserted so that the draft IPSAS explicitly states what FSDA should do. Based on the definition of FSDA.
9B	Was first sentence of paragraph 16.
9C	Was paragraph 9. Amended to refer to the QCs of financial reporting rather than the QCs in Appendix A of IPSAS 1 on the basis that the final paragraphs of Phase 1 of the <i>Conceptual Framework</i> will be approved at the December 2012 meeting and Appendix A of IPSAS 1 withdrawn.
9D	Inserted to explain the QCs and where further information can be found.
9E	Inserted to explain that only material items should be included in the FSDA. Based on IPSAS 1.47.
<u>Structure and Content of Financial Statement Discussion and Analysis</u>	
10	Editorial change.
10A	Inserted so that the same presentation is retained from one period to the next. Based on IPSAS 1.42.
10B	Inserted to explain that presentation may be changed provides information more relevant to users. Based on IPSAS 1.44.

Paragraph	Comment
Identification of Financial Statement Discussion and Analysis	
This section has been moved up.	
11	Moved to paragraph 5B.
12	Moved to paragraph 5D.
Compliance with this IPSAS	
13	No change. Based on IPSAS 1.28.
13A	Inserted to address concerns that asserting compliance with IPSASs applicable to the financial statements will be problematic where an entity cannot also assert compliance with this IPSAS.
14	Editorial change.
Minimum Required Content	
Deleted the “minimum required” because an entity need not disclose a specific disclosure requirement in IPSASs if it is satisfied that the information is not material—IPSAS 1.47.	
15	Deleted the “at a minimum” for the same reason given above for the heading.
16	First sentence: Moved to paragraph 9B. Second and third sentences: Moved to paragraph 17A.
17	Editorial changes.
17A	Based on second and third sentences of paragraph 16.
<i>Overview of the Entity’s Operations and Environment</i>	
Amended heading to be more specific.	
17B	Inserted to require disclosure of an overview of the entity’s operations and the environment in which it operates.
18	Editorial changes. Amended (c) by adding reference to relationships that could significantly affect financial performance and position.
<i>Information about the Entity’s <u>Financial</u> Objectives and Strategies</i>	
Added “financial” to heading to limit scope so that this standard does not go into service performance reporting.	
18A	Inserted to require disclosure an entity’s financial objectives and strategies.
19	Amended to specify that a time period should be disclosed for the measurement of financial objectives.

Paragraph	Comment
20	Editorial changes to remove “should”.
<i>Analysis of the Entity’s Financial Statements</i>	
20A	Inserted to require disclosure of a description of the entity’s financial performance for the period and the significant events and transactions that affected it.
21	First sentence: Editorial changes. Added a new second sentence to remind readers that judgment will be required in determining the significant events and transactions that occurred during the reporting period. Existing second sentence: Deleted because users are assumed to have reasonable knowledge of accounting. Third sentence: Deleted because these disclosures are required by IPSAS 14, <i>Events after the Reporting Date</i> , and IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> .
22	Inserted new first sentence to require disclosure where an entity has adjusted information included in the financial statements. Rest of paragraph: Editorial changes.
23	Changed “should” to “shall” and changed the paragraph to bold text so that comparatives are required when they are relevant to understanding the current period’s financial statements.
24	Third sentence: Deleted because its meaning is not clear in the context of the first two sentences. Deleted last sentence as it is similar to the third sentence.
25	Deleted because it does not add anything to the standard.
26	Moved to paragraph 26A. Inserted new text to explain what an entity should do if it applies IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> .
26A	Was paragraph 26. Amended to clarify that where an entity does not apply IPSAS 24, it is encouraged to make disclosures about its actual results compared with its approved budget. Deleted (b) so that this standard is consistent with IPSAS 24 because IPSAS 24 does not require this information.
<i>Risks and Uncertainties</i>	
26B	Inserted to require disclosure of an entity’s principal risk exposures, changes in those risks, its strategies for bearing or mitigating those risks, any underlying assumptions and the effectiveness of its risk management strategy.
27	Deleted second and third sentences and last sentence as now included in paragraph 26B. Added “and is neutral” to fourth sentence so that paragraph 30 can be deleted.
28	Added “and environmental issues” to first sentence so that paragraph 30 can be deleted.
29	Editorial changes.

Paragraph	Comment
30	Deleted because IPSAS 14 requires these disclosures. Also reference to environmental issues has been moved to paragraph 28 and requiring the information presented to be neutral has been moved to paragraph 27.
31	No change.
32	Editorial change.
Transition	
33	No change.
34	Amended because comparative information is required by paragraph 23.
Effective Date	
35	Editorial change. Standard effective date paragraph.
36	No change. Standard effective date paragraph.
Appendix A: Amendments to Other IPSASs	
IPSAS 1	<ul style="list-style-type: none"> Amended paragraph 24A so that when an entity elects to explain in FSDA material differences between the budgeted and actual amounts it applies the guidance in IPSAS 24 rather than the guidance in this draft IPSAS in order to ensure consistency between the IPSAS 24 disclosures in the financial statements and the related disclosures in FSDA. Added paragraph 28A to explicitly state that compliance with IPSASs applicable to the financial statements does not mean that the entity also has to comply with the FSDA IPSAS.
IPSAS 24	<ul style="list-style-type: none"> Amended paragraph 14(c) to be FSDA is issued “at the same time as” the financial statements because “in conjunction with” does not necessarily mean at the same time. Amended paragraph 19 for the same reason as given for IPSAS 1 paragraph 24A. Added paragraph 30 for amendments to remove reference to “management discussion and analysis”. Added Basis for Conclusions paragraphs BC4 and BC12 for amendments to remove reference to “management discussion and analysis”.
IPSAS 30	<ul style="list-style-type: none"> Added IPSAS 30 because paragraph AG6 needs to be amended to remove reference to “management commentary”.

DRAFT IPSAS XX—FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

MARKED-UP VERSION

Objective

1. The objective of this Standard is to ~~prescribe the manner in which establish principles for preparing and presenting~~ financial statement discussion and analysis ~~should be prepared and presented. To achieve this objective, this Standard sets out overall considerations for the guidance for its structure, minimum requirements for the content and presentation to allow entities to prepare financial statement discussion and analysis for their specific circumstances to~~ Financial statement discussion and analysis will assist users to understand the financial statements.

Scope

2. An entity that prepares and presents ~~general purpose~~ financial statements ~~(“financial statements”) under the accrual basis of accounting in accordance with IPSAS 1, Presentation of Financial Statements,~~ shall apply this Standard when preparing ~~prepare and present its~~ financial statement discussion and analysis. The reporting boundary for ~~f~~Financial statement discussion and analysis shall be ~~prepared for the same reporting entity as that prepares and presents used for the~~ financial statements ~~under the accrual basis of accounting.~~
- 2A. Financial statement discussion and analysis is not a component of the financial statements. IPSAS 1, Presentation of Financial Statements, sets out the requirements for the composition of financial statements.
3. ~~This Standard applies only to financial statement discussion and analysis. It does not apply to other information included in public documents issued in conjunction with the financial statements.~~
4. **This Standard applies to all public sector entities other than Government Business Enterprises.**
5. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1.
- 5A. This Standard does not mandate the level of assurance (if any) to which financial statement discussion and analysis should be subjected.

Identification of Financial Statement Discussion and Analysis

- 5B. [Was paragraph 11] Financial statement discussion and analysis shall be identified clearly identified, and distinguished from the financial statements and from other information in the same published document.
- 5C. [Was paragraph 3] This Standard applies only to financial statement discussion and analysis. It does not apply to other information included in public documents issued in conjunction with at the

same time as the financial statements. Financial statement discussion and analysis may be published as a separate report, or as part of the report that includes the financial statements or as part of another report.

5D. [Was paragraph 12] Separate identification of financial statement discussion and analysis enables users to distinguish:

(a) Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs applicable to the financial statements;

~~(a)~~(b) Financial statement discussion and analysis prepared in accordance with this Standard; and

(c) Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSASs.

Requirement for Financial Statement Discussion and Analysis Reporting Period

6. Financial statement discussion and analysis shall be presented at least annually and shall use the same reporting period as that used for the financial statements. An entity shall issue the financial statement discussion and analysis at the same time as its when it issues financial statements.

7. IPSAS 1 requires financial statements to be prepared at least annually. ~~Some entities may prepare condensed interim financial information. This Standard imposes the same requirement for requires an entity to issue financial discussion and analysis in conjunction with the entity's annual financial statements.~~

Definition

8. The following term is used in this Standard with the meaning specified:

Financial statement discussion and analysis is an explanation of the significant items, transactions, and events presented in an entity's financial statements and the ~~trends and~~ factors that influenced them.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Qualitative Characteristics

9. [Moved to paragraph 9C] Financial statement discussion and analysis shall include information that possesses the qualitative characteristics of general purpose financial reports identified in Appendix A of IPSAS 1.

Key Principles of Financial Statement Discussion and Analysis

9A. An entity's financial statement discussion and analysis shall provide an explanation of the significant items, transactions, and events presented in the entity's financial statements and the factors that influenced them.

9B. [Was paragraph 16] Financial statement discussion and analysis provides useful information useful to users for accountability and decision-making purposes by enabling users' to gain an insight on the operations of the entity from the perspective of the entity itself. It also provides the opportunity

to reflect the entity's interpretation of significant events and transactions affecting the financial performance and position of the entity. Therefore, financial statement discussion and analysis complements and supplements the information in the financial statements.

9C. [Was paragraph 9] Financial statement discussion and analysis shall include information that possesses the qualitative characteristics of general purpose financial reportings identified in Appendix A of IPSAS 1.

9D. The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. See Phase 1 of the *Conceptual Framework* for further details.

9E. Financial statement discussion and analysis includes only information that is material.

Structure and Content of Financial Statement Discussion and Analysis

10. The content of f**Financial statement discussion and analysis shall be consistent with the financial statements, and based on currently-known facts and supportable assumptions.**

10A. The presentation of information in financial statement discussion and analysis shall be retained from one period until the next unless another presentation would be more appropriate.

10B. An entity changes the presentation of its financial statement discussion and analysis only if the changed presentation provides information that is more relevant to users, and the revised structure is likely to continue, so that comparability is not impaired.

~~Identification of Financial Statement Discussion and Analysis~~

11. ~~Financial statement discussion and analysis shall be identified clearly, and distinguished from the financial statements.~~

12. ~~Separate identification of financial statement discussion and analysis enables users to distinguish:~~

- ~~(a) Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs; and~~
- ~~(b) Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSASs.~~

Compliance with this IPSAS

13. **An entity whose financial statement discussion and analysis complies with this IPSAS shall make an explicit and unreserved statement of such compliance. Financial statement discussion and analysis shall not be described as complying with this IPSAS unless it complies with all the requirements of this IPSAS.**

13A. An entity can claim compliance with this IPSAS where it has complied with all of the requirements. This requirement does not mean that an entity also has to comply with IPSASs applicable to the financial statements because (a) financial statement discussion and analysis is not a component of the financial statements listed in paragraph 21 of IPSAS 1 and (b) compliance with IPSASs applicable to the financial statements is dealt with in IPSAS 1.

14. In some jurisdictions, preparation and presentation of financial statement discussion and analysis is ~~a required by~~ legislative ~~or,~~ regulatory requirement, or required by other externally-imposed regulations. Entities are encouraged to disclose information about compliance with those requirements.

~~Minimum Required~~ Content

15. To the extent it supplements and does not replicate information in the financial statements, financial statement discussion and analysis shall include, ~~at a minimum~~:

- (a) An overview of the entity's s operations and environment;
- (b) Information about the entity's financial objectives and strategies;
- (c) An analysis of the entity's financial statements, including variances and trends; and
- (d) Information about the entity's risks and uncertainties, including its risk management strategy.

16. ~~[Moved to paragraph 9A] Financial statement discussion and analysis provides useful information to users for accountability and decision-making purposes. [Moved to paragraph 17A.] However, some matters may be required to be included in the financial statements by relevant IPSASs that may also be required to be included in financial statement discussion and analysis in accordance with this Standard. In those cases, financial statement discussion and analysis should not merely repeat what is in the financial statements, but it should complement and supplement the financial statement explanations by providing insights and perspectives thereon.~~

17. ~~Although the specific information contained in The form and content of an entity's financial statement discussion and analysis will vary depending on the facts and circumstances specific to nature of the entity and the regulatory environment in which it operates, certain essential elements are important to all financial statement discussion and analysis, as discussed below.~~

- 17A. [Based on paragraph 16] When information is required to be included in the financial statements by relevant IPSASs, the financial statement discussion and analysis does not merely repeat what is in the financial statements, but analyzes and explains how items affect the entity's financial performance and position. The financial statement discussion and analysis includes cross-references to the financial statements where appropriate to avoid duplication of information.

Overview of the Entity's Operations and Environment

- 17B. An entity shall provide an overview of its operations and the environment in which it operates.

18. An overview of the entity helps users to understand the entity's operations and how the environment in which it operates affects ~~its an entity's~~ financial statements. This information is the starting point in assisting users' understanding of an entity's financial statements. Information provided about an entity's operations in financial statement discussion and analysis may include current information, and changes from the prior year, about:

- (a) The entity's mission and vision;
- (b) The entity's governance (e.g., legislative or regulatory structure, management structure);

- (c) The entity's relationships with other entities with a focus on relationships that could significantly affect the entity's financial performance and position (e.g., funding arrangements);
- (d) External trends, events and developments in the legal, regulatory, social, political, and macro-economic environment specific to the entity, which have or may have a ~~material~~ significant impact on the entity's financial position and financial performance (e.g., the impact of a regional or international financial crisis on employment, the tax base, or interest rates ~~in the jurisdiction~~); and
- (e) The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.

Information about the Entity's Financial Objectives and Strategies

18A. An entity shall disclose its financial objectives and strategies.

- 19. Financial statement discussion and analysis ~~should~~ discusses the entity's financial objectives and strategies in a way that enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve ~~its these~~ objectives and strategies. Financial statement discussion and analysis ~~should~~ also explains how the achievement of the entity's financial objectives (e.g., debt reduction strategy) will be measured and over what time period the achievement will be measured.
- 20. Financial statement discussion and analysis ~~should~~ discusses significant changes in an entity's financial objectives and strategies from the previous period or periods.

Analysis of the Entity's Financial Statements

20A. An entity shall provide a description of its financial performance for the period and the significant events and transactions that have affected it.

- 21. Financial statement discussion and analysis ~~should~~ describes the significant events and ~~activities~~ transactions that have affected the financial statements, without simply reiterating the information presented in ~~these the~~ financial statements. Judgment is required in the identification of the significant events and transactions. A brief discussion of the purpose of, and information provided by, each component of the financial statements set out in IPSAS1, and their interrelationships should also be provided. In addition, there should be a discussion of significant commitments, contingencies, and events occurring after the reporting date.
- 22. If information from the financial statements has been adjusted for inclusion in financial statement discussion and analysis, that fact is disclosed. If financial performance measures that are not required or defined by IPSASs are included within financial statement discussion and analysis, those measures ~~should be~~ are defined and explained, including an explanation of the relevance of the measure to users. When financial performance measures are derived or drawn from the financial statements, those measures ~~should be~~ are reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs. In addition, narrative explanations of such illustrations ~~should be~~ are provided if necessary to ~~accurately and completely present faithfully represent~~ the information.

23. **Comparative information ~~should~~shall be included in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statements.**
24. Financial statements can have a predictive or prospective role. This Standard does not require the entity to disclose forward-looking information, such as forecasts or projections. ~~However, financial statement discussion and analysis should explain significant changes and trends in an entity's financial position and financial performance. An analysis of trends includes those financial statement items that are important and significant to gaining a better understanding of an entity's financial position and performance and changes in financial position and performance over a period of time.~~
25. ~~Identification of the main events, trends, and factors influencing the current reporting period may provide information about the entity's intended actions in relation to such events, trends, and factors because the party responsible for the preparation of the entity's financial statement discussion and analysis possesses informed expectations regarding the entity's future operations based on its detailed knowledge of the entity's current operations.~~
26. When an entity is required or elects to make their approved budgets(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of budget and actual amounts in the financial statements. IPSAS 24 also requires an explanation of material differences between the budgeted and actual amounts and permits an entity to disclose this information either in the notes to the financial statements or in financial statement discussion and analysis. When an entity elects to include this information in its financial statement discussion and analysis, it applies the guidance in IPSAS 24 to these disclosures.
- 26A. When an entity does not make its approved budget publicly available it is encouraged to include information in its ~~To the extent such information is not included in the financial statements,~~ financial statement discussion and analysis ~~should include information~~ about significant positive and negative variances between: ~~(a)~~ actual results and the approved budget; ~~and~~
- ~~(b) The prior year and current year financial statements, by explaining significant changes and highlighting trends.~~

Risks and Uncertainties

26B. An entity shall disclose:

- (a) Its principal risk exposures;
 - (b) Changes in those risks since the last reporting date;
 - (c) Its strategies for bearing or mitigating those risks;
 - (d) Any underlying assumptions; and
 - ~~(a)~~ (e) The effectiveness of its risk management strategy.
27. Information about the entity's risks and uncertainties helps users to evaluate the impact of risks in the current period (e.g., contingent liabilities disclosed in the financial statements) as well as expected outcomes. ~~Information provided may include its main exposures to risk and changes in those risks, its opportunities, along with its policies and strategies for mitigating the risks and capitalizing on opportunities. It may also include the entity's evaluation of the effectiveness of its risk management strategies. This information is~~ It is noted, however, that these need to be fact-

based, ~~and takes~~ into account currently-known conditions and is neutral. ~~In addition, underlying assumptions need to be disclosed.~~

28. Information about the entity's risks and uncertainties may include a discussion of such matters as a summary of the entity's investment policy, insurance coverage and other means of managing its risks, ~~insurance coverage, and~~ other controls intended to safeguard the entity's assets and environmental issues. It may also include the relevant legislation, regulation or body that sets the risk management policies for the entity ~~(e.g., when risks are managed at a government-wide level)~~.
29. A discussion of how the entity's manages its risks helps users obtain a ~~complete picture faithful representation~~ of the entity's exposure to risks that directly affect financial statement items ~~and disclosures~~, which allows them to evaluate the entity's financial position and financial performance. Such disclosure may include the entity's decision to "self-insure", or to mitigate risk by transferring or sharing it, or through insurance.
30. ~~Additional information may be provided about uncertainties such as environmental issues, and significant events after the reporting date (see IPSAS 14, *Events After the Reporting Date*), which may affect the entity's future operations (e.g., debt issuance, guarantees issued in relation to a financial crisis, or entering into a new service concession arrangement). Information may also be provided about the entity's opportunities; however in reporting such information, care must be taken to ensure it is fact-based, and neutral. This means that the assumptions made are based on conditions that exist at the reporting date and events that occurred in the current period.~~
31. A discussion of the risks the entity faces also provides relevant information to users about exposure or vulnerability to concentrations of risks such as significant loans to particular regions or industries, or dependence on a particular source of revenue.
32. Risks and uncertainties may have a pervasive effect on the financial statements, therefore information pertaining relating to risks and uncertainties may be reported separately, or in relevant sections throughout the financial statement discussion and analysis.

Transition

33. All provisions of this Standard shall be applied from the date of first adoption of this Standard.
34. An entity that has applied the transitional provision in IPSAS 1 to present only current period information in the financial statements to which accrual accounting is first adopted in accordance with IPSASs is permitted to omit the comparative information ~~described in required by~~ paragraph 23 from its financial statement discussion and analysis for that period.

Effective Date

35. An entity shall apply this Standard to financial statement discussion and analysis ~~that relates to annual financial statements~~ covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 1, ~~and~~ IPSAS 24, ~~*Presentation of Budget Information in Financial Statements*~~ and IPSAS 30, *Financial Instruments: Disclosures* at the same time.

36. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's financial statement discussion and analysis covering periods beginning on or after the date of adoption.

Appendix A

Amendments to Other IPSASs

IPSAS 1, *Presentation of Financial Statements*

A new paragraph is inserted after paragraph 21 as follows:

Components of Financial Statements

21. A complete set of financial statements comprises:

- (a) A statement of financial position;
- (b) A statement of financial performance;
- (c) A statement of changes in net assets/equity;
- (d) A cash flow statement;
- (e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
- (f) Notes, comprising a summary of significant accounting policies and other explanatory notes.

21A. Financial statement discussion and analysis is not a component of the financial statements. IPSAS XX (ED 47), *Financial Statement Discussion and Analysis* requires financial statement discussion and analysis to be issued at the same time as its financial statements.

A new paragraph is inserted after paragraph 24 as follows:

24. Public sector entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. General purpose financial reporting by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Entities that make publicly available their approved budget(s) are required to comply with the requirements of IPSAS 24, *Presentation of Budget Information in Financial Statements*. For other entities, where the financial statements and the budget are on the same basis of accounting, this Standard encourages the inclusion in the financial statements of a comparison with the budgeted amounts for the reporting period. Reporting against budget(s) for these entities may be presented in various different ways, including:
- The use of a columnar format for the financial statements, with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented for completeness; and
 - Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item in the financial statements.

24A. When an entity elects, under IPSAS 24, to explain, in financial statement discussion and analysis rather than by way of note disclosure, material differences between the budgeted and actual amounts identified in paragraph 24, it applies the guidance in IPSAS 24.

Paragraphs 27 and 28 are amended as follows:

Overall Considerations

Fair Presentation and Compliance with IPSASs

27. Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation of the financial statements requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs applicable to the financial statements. The application of these IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.
28. An entity whose financial statements comply with IPSASs applicable to the financial statements shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of those IPSASs.
- 28A. An entity can claim compliance with IPSASs applicable to the financial statements where it has complied with all of the requirements. This requirement does not mean that an entity also has to comply with IPSAS XX (ED 47) because (a) financial statement discussion and analysis is not a component of the financial statements listed in paragraph 21 and (b) compliance with IPSAS XX (ED 47) is dealt with in that IPSAS.

Paragraph 62 is amended as follows:

Identification of the Financial Statements

...

62. IPSASs apply to financial statements and financial statement discussion and analysis, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using IPSASs from other information that may be useful to users but is not the subject of those requirements.

A new paragraph is inserted after paragraph 153D as follows:

Effective Date

153E. Paragraphs 21A, 24A and 28A were inserted and paragraphs 27, 28 and 62 were amended by IPSAS XX (ED 47) issued in Month 201X. An entity shall apply those amendments for annual financial statements covering periods beginning on or after Month DD, 201X. Earlier application is encouraged. If an entity applies the amendments for a period beginning before Month DD, 201X, it shall disclose that fact and at the same time apply IPSAS XX (ED 47), the

amendments to paragraphs 14, 19, 30 and 54A of IPSAS 24 and the amendments to paragraphs AG6 and 52A of IPSAS 30.

IPSAS 24, *Presentation of Budget Information in Financial Statements*

Paragraph 14 is amended as follows:

Presentation of a Comparison of Budget and Actual Amounts

14. Subject to the requirements of paragraph 21, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSASs. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:
- (a) The original and final budget amounts;
 - (b) The actual amounts on a comparable basis; and
 - (c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in the financial statement discussion and analysis issued in conjunction with at the same time as the financial statements, and a cross reference to those documents is made in the notes.

Paragraph 19 is amended as follows:

19. ~~Management~~ IPSAS XX (ED 47), *Financial Statement Discussion and Analysis* requires presentation of a financial statement discussion and analysis, operations review, or other public reports that provides commentary on the performance and achievements of the entity during the reporting period. It can include including explanations of any material differences from budget amounts, issued in conjunction with the financial statements. In accordance with paragraph 14(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements, unless (a) included in the financial statement discussion and analysis ~~or other public reports or documents issued in conjunction with~~ at the same time as the financial statements, and (b) the notes to the financial statements explain that this analysis identify the reports or documents in which the explanation can be found in the financial statement discussion and analysis. When an entity presents the actual-to-budget comparison in financial statement discussion and analysis, it applies the guidance in this Standard.

Paragraph 30 is amended as follows:

Changes from Original to Final Budget

- ...
30. The final budget includes all changes approved by legislative actions or other designated authority to revise the original budget. Consistent with the requirements of this Standard, a public sector entity will include in the notes to the financial statements or in its financial statement discussion and analysis ~~a separate report issued before, in conjunction with, or at the same time as the financial statements~~, an explanation of changes between the original and final budget. That explanation will

include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. ~~Such disclosures are often made in a management discussion and analysis or similar report on operations issued in conjunction with, but not as part of, the financial statements.~~ Such disclosures may also be included in budget out-turn reports issued by governments to report on budget execution. Where disclosures are made in separate reports rather than in the financial statements, the notes to the financial statements will include a cross reference to the report.

A new paragraph is inserted after paragraph 54 as follows:

Effective Date

54A. Paragraphs 14, 19 and 30 were amended by IPSAS XX (ED 47) issued in Month 201X. An entity shall apply those amendments for annual financial statements covering periods beginning on or after Month DD, 201X. Earlier application is encouraged. If an entity applies the amendments for a period beginning before Month DD, 201X, it shall disclose that fact and at the same time apply IPSAS XX (ED 47), the amendments to paragraphs 21A, 24A, 28A, 27, 28, 62 and 153E of IPSAS 1 and the amendments to paragraphs AG6 and 52A of IPSAS 30.

Basis for Conclusions

Paragraphs BC4 and BC12 are amended as follows:

BC4. Many governments and government entities that make publicly available their approved budget(s) already report actual against budgeted amounts in their financial statements. They also include an explanation of material differences between actual and budget (a) in notes to their financial statements, or (b) in financial statement discussion and analysis issued at the same time as their financial statements ~~management discussion and analysis or similar reports~~, or (c) in budget out-turn or similar reports issued in conjunction with their financial statements. For these governments and government entities, comparisons of budget and actual amounts are generally made at the levels of oversight approved by the legislature or similar authority, and explanations of material differences are made where budgetary authority is exceeded. The IPSASB is of the view that this practice is appropriate, and has issued this Standard to reinforce the practice, and to require that it be adopted by all entities that make publicly available their approved budgets.

...

BC12. This Standard requires an explanation of material differences (whether positive or negative) between actual and budget amounts to be made by way of note disclosure in the financial statements, unless such explanation is included in other publicly available documents issued in conjunction with the financial statements. The IPSASB is of the view that disclosure of this information will enhance the transparency of financial statements, and strengthen the accountability of entities that make their budgets publicly available. The explanation of such differences may be included in financial statement discussion and analysis issued at the same time as the financial statements, or a management discussion and analysis, operations

~~review~~, budget out-turn, or similar report issued in conjunction with the financial statements. The IPSASB is of the view that where explanation is included in such reports, and notes to the financial statements direct readers to those reports, it is not necessary to repeat that explanation in the financial statements.

IPSAS 30, *Financial Instruments: Disclosures*

Paragraph AG6 is amended as follows:

Nature and Extent of Risks Arising from Financial Instruments (paragraphs 38–49)

AG6. The disclosures required by paragraphs 38–49 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as financial statement discussion and analysis ~~a management commentary~~ or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

A new paragraph is inserted after paragraph 52 as follows:

Effective Date

52A. Paragraph AG6 was amended by IPSAS XX (ED 47) issued in Month 201X. An entity shall apply that amendment for annual financial statements covering periods beginning on or after Month DD, 201X. Earlier application is encouraged. If an entity applies the amendments for a period beginning before Month DD, 201X, it shall disclose that fact and at the same time apply IPSAS XX (ED 47), the amendments to paragraphs 21A, 24A, 28A, 27, 28, 62 and 153E of IPSAS 1 and the amendments to paragraphs 14, 19, 30 and 54A of IPSAS 24.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS XX (ED 47).

- IG1. ~~[Was paragraph immediately below Section B heading] This Implementation Guidance suggests possible ways to apply some of the disclosure requirements in IPSAS XX [ED 47]. The guidance does not create additional requirements. includes guidance on how an entity may prepare and present financial statement discussion and analysis that includes information about all significant items, transactions, and events presented in the financial statements that are most relevant to enhancing users' understanding of the financial statements.~~

Property, Plant, and Equipment

- IG2. ~~[Was paragraph B.IG10] The~~ information ~~required to~~ which may promote a better understanding of an entity's property, plant, and equipment ~~explains~~ builds on the information in the financial statements. Reporting on the physical condition of property, plant, and equipment assists users when assessing:

- ~~(a) The effects on service potential of past resource allocation and funding decisions;~~
- (b) The trends in the physical condition;
- (c) The adequacy of existing maintenance, replacement and renewal funding; and
- (d) The extent of current and future revenues needed to maintain, renew, and replace property, plant, and equipment.

- IG3. ~~[Was paragraph B.IG3] Financial statement discussion and analysis may include the following information~~ pertaining relating to an entity's property, plant, and equipment:

- (a) An analysis of required maintenance, including future expenditure requirements for maintenance ~~and replacement~~, to allow users to make informed decisions regarding the ability of the capital assets to sustain and provide services in the future;
- ~~(a) An analysis of the change in the net book value of property, plant, and equipment by major class and an explanation of what the net book value and changes in it mean (e.g., a description of why the net book value has increased or decreased is useful in understanding asset replacement and usage);~~
- ~~(b) The average age and average useful life for each category of property, plant, and equipment; and~~
- ~~(c) An assessment of the assets' physical condition carried out by a technical expert in such assessments.~~

Use of Ratios or Indicators

- IG4. ~~[New paragraph] Financial statement discussion and analysis may include ratios or indicators to assist users' understanding of financial statement items. Some examples are:~~

- ~~(a) [Based on paragraph B.IG16(d)] An analysis of the change in revenues by major source may be useful in explaining how the entity's operations have changed over the reporting period;~~

- (b) [Based on paragraph B.IG16(b)(i)] Revenues received from other levels of government or international entities may be useful in explaining the level of dependence the entity has on particular sources of revenues;
- (c) [Based on paragraph B.IG12(c)] The percentage of finance expenses to total revenues may be useful in explaining the magnitude of servicing existing debt;
- (d) [Based on paragraph B.IG12(c)] The percentage of financial liabilities to total liabilities may be useful in explaining the magnitude of the entity's debt level; and
- (e) [Based on paragraph B.IG16(c)] The percentage of total assets of GBEs to total assets of the economic entity may be relevant where restrictions are placed on the use of a GBEs assets.

Variances and Trends

- IG5. [Was paragraph C.IG1] Paragraph 15(c) requires financial statement discussion and analysis to include information about the entity's financial statements, including variances and trends. ~~This Implementation Guidance includes guidance on the type of information an entity may provide in its discussion and analysis to satisfy that requirement.~~
- IG6. [Was paragraph C.IG4] Financial statement discussion and analysis may include an analysis of trends in an entity's financial position and financial performance that ~~provides information that is useful to users' because it includes reporting periods earlier than the periods presented in the financial statements beyond the date of the financial statement discussion and analysis.~~ For example:
- (a) ~~Analysis of changes in the nature and extent of financial assets provides information regarding the amount of resources available to be converted to cash if necessary. In addition, specific ratios and analysis of cash flows may be useful to highlight liquidity.~~
 - (b) Analysis of changes in revenues by major source may indicate trends and dependencies on specific revenue sources ~~(e.g., government business enterprises (GBEs), transfers, or royalties).~~
 - (c) Analysis of changes in expenses may demonstrate the entity's allocation and use of resources, ~~provide insight into the cost of programs and services,~~ and assist in evaluating the cost of borrowing to finance spending.
 - (d) ~~Discussion of significant changes in commitments, contingencies, and subsequent events assists users in assessing future revenue requirements of the entity.~~
- IG7. Other changes may affect the trend analysis. For example, when an entity restructures its operations or chooses an alternative method of service delivery, this may affect certain trends. In cases where such changes have significantly affected a trend, the financial statement discussion and analysis should describe the reasons for the changes in the trend to assist users in understanding and assessing the financial effect of those changes.

Implementation Guidance Paragraphs that are Proposed to be Deleted

- IG1. ~~The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS XX (ED 47).~~

- IG2. ~~This Implementation Guidance is divided into three sections as follows:~~
- ~~(a) Section A: Qualitative Characteristics of General Purpose Financial Reports—Applicability to Financial Statement Discussion and Analysis;~~
 - ~~(b) Section B: Examples of Information about the Entity's Financial Statements; and~~
 - ~~(c) Section C: Examples of Information about Variances and Trends.~~

~~Section A: Qualitative Characteristics of General Purpose Financial Reports—Applicability to Financial Statement Discussion and Analysis~~

- A.IG1. ~~Financial statement discussion and analysis is intended to explain the significant items, transactions, and events presented in an entity's financial statements and the trends and factors that influenced the financial statements to assist users to understand the financial statements. It should, therefore, possess the same qualitative characteristics as for financial statements described in IPSAS 1, namely:~~
- ~~(a) Understandability;~~
 - ~~(b) Relevance;~~
 - ~~(c) Reliability; and~~
 - ~~(d) Comparability.~~
- A.IG2. ~~Financial statement discussion and analysis should aim to achieve a balance between the qualitative characteristics to meet the objectives of providing the information. In some cases, depending on the circumstances of the entity, the relative importance of a particular qualitative characteristic may be greater than in others.~~
- A.IG3. ~~Application of the qualitative characteristics to financial statement discussion and analysis is set out in paragraphs A.IG.4–A.IG.20.~~

~~Understandability~~

- A.IG4. ~~Information provided in financial statement discussion and analysis should be clear and concise to explain and interpret the complex transactions, events, and conditions presented in the financial statements in a readable and simple manner. Financial statement discussion and analysis is understandable when it uses descriptions that are not overly technical, does not provide excessive detail, and clearly describes those transactions, events, and conditions.~~

~~Relevance~~

- A.IG5. ~~The matters that are relevant to an entity are also specific to that entity. Financial statement discussion and analysis reflects detailed knowledge of the items, transactions, and events, presented in the entity's financial statements and of the policies that govern the entity's operations. This means that financial statement discussion and analysis may not include some matters that are material to the components of the financial statements set out in IPSAS 1, or it may include some matters that are not material to the financial statements.~~

- A.IG6. ~~Financial statement discussion and analysis needs to be clear and concise to be useful, therefore the most important, or material, matters must be selected to be included, descriptions should be non-technical, and an appropriate but not excessive level of detail should be provided. Inclusion of information about immaterial items could make the more important information difficult to find.~~
- A.IG7. ~~Generic or “boilerplate” information that does not relate to the specific operations, practices and circumstances of the entity is unlikely to be relevant and should not be included in financial statement discussion and analysis. When practicable, duplication of the disclosures made in the notes to its financial statements should be avoided. Financial statement discussion and analysis that recites financial statement information without analysis or explanations, or presents discussions that do not provide insight into the entity’s past performance is unlikely to provide information that is relevant to users of the financial statements, and may create an obstacle for users to identify and understand the most significant matters the entity faces. For example, commentary on the economy that relates specifically to the entity’s financial statements and expected impacts on the entity would be relevant information for users.~~
- A.IG8. ~~When dealing with qualitative or forward-looking information (e.g., expectations about financial results in the future), it is not generally possible to specify a uniform quantitative threshold above which a particular type of information becomes material.~~
- A.IG9. ~~Financial statement discussion and analysis provides additional perspectives and insights about the financial statements, which increases the relevance of the information.~~

Reliability

- A.IG10. ~~Information presented in financial statement discussion and analysis should be:~~
- ~~(a) Based on, and consistent with, the underlying financial statements;~~
 - ~~(b) Neutral in discussing both positive and negative facts and views;~~
 - ~~(c) Based on currently known facts, decisions, or conditions; and~~
 - ~~(d) Based on verifiable and supportable assumptions.~~
- A.IG11. ~~It is important that information presented in the financial statement discussion and analysis is supported by information in the financial statements, and does not go beyond or contradict the information presented in the financial statements.~~
- A.IG12. ~~Information that excludes certain facts (e.g., negative) is incomplete and thus could be not neutral. In cases when financial statement discussion and analysis presents ratios, tables, or charts, they should not distort the information in the financial statements by, for example, using a scale that exaggerates a positive or negative trend.~~
- A.IG13. ~~Financial statement discussion and analysis should contain information specific to the entity and related to that reporting period. While the information provided in financial statement discussion and analysis may reflect information outside of the financial statements (e.g., economic indicators such as changes in the tax base or the employment base), that information should be related to the reporting period and should be from a reliable source.~~

- A.IG14. ~~The underlying assumptions and methodologies (including formulae) used to determine ratios and to prepare tables and charts included in financial statement discussion and analysis should be disclosed (e.g., those used in analyses of trends and variances). In addition, the methodologies adopted in compiling the information, and the factors and circumstances that support the discussion and analyses, need to be transparent. Disclosure of this information permits users to assess the reliability of the information provided.~~
- A.IG15. ~~Assumptions should be mutually compatible. Assumptions are mutually compatible when they reflect economic relationships in the jurisdiction (e.g., interest rates, employment rates, GDP). For example, all assumptions that depend on the tax base for a given future period would assume the same tax base level in that period.~~
- A.IG16. ~~Financial statement discussion and analysis should clearly describe the basis for how the information is reported, including the unit of measurement. For example, in cases when financial statement discussion and analysis presents ratios, tables, or charts, they should not distort the information in the financial statements by, for example, using a scale that exaggerates a positive or negative trend. Thus, when financial statement discussion and analysis contains charts or graphs showing trends, disclosure of the unit of measurement is necessary to ensure such information can be properly interpreted. When such information is presented, the scale of such illustrations should be on a basis that faithfully represents the relationships of the items being analyzed.~~
- A.IG17. ~~In some cases it may not be possible to verify the accuracy of all qualitative and quantitative explanations of such information until a future period, if at all. For example, if the entity's strategy and risk management are described in financial statement discussion and analysis, such information would be less verifiable than, for example, a ratio calculated from information provided in the financial statements.~~

Comparability

- A.IG18. ~~Information in financial statement discussion and analysis should be comparable. Comparability applies to information related to different entities and to the entity over periods of time.~~
- A.IG19. ~~Comparability is enhanced when financial statement discussion and analysis is presented on a basis consistent with that in prior years and when the same principles and practices are used for each period for such items as determining ratios and preparation of tables and charts included in financial statement discussion and analysis. In addition, disclosure of those principles and practices, including underlying assumptions and formulae, is useful in interpreting the analyses. Changes to the principles and practices used to prepare financial statement discussion and analysis from one period to the next should be disclosed.~~
- A.IG20. ~~Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.~~

Section B: Examples of Information about the Entity's Financial Statements

Financial Position

- B.IG1. ~~Information about the financial position will help users to identify the resources of the entity that can be used to provide particular services in future periods and claims to those resources at the reporting date. This will provide information useful as input to assessments of such matters as:~~
- ~~(a) The extent to which the entity has discharged its responsibilities for safekeeping and managing its resources;~~
 - ~~(b) The extent to which resources are available to support future service delivery objectives; and~~
 - ~~(c) The amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources.~~

Financial Assets

- B.IG2. ~~Financial statement discussion and analysis may include the following information pertaining to an entity's financial assets:~~
- ~~(a) Changes in financial assets to illustrate volatility in the sources of funds;~~
 - ~~(b) Provisions for loan losses;~~
 - ~~(c) The rates of return on investment;~~
 - ~~(d) Composition of investments;~~
 - ~~(e) A government's investment in GBEs as a percentage of the total financial assets;~~
 - ~~(f) Taxes receivable to total tax revenues; and~~
 - ~~(g) Restricted and designated assets set aside for specific purposes.~~
- B.IG3. [Moved to paragraph IG3]
- B.IG4. ~~Asset management systems may contain information about an asset's physical condition, but the absence of an asset management system does not necessarily preclude reporting on the physical condition.~~
- B.IG5. ~~Asset condition assessment methodologies and frequency of assessments can be different for major classes of property, plant, and equipment. For example, they could be different for bridges when compared to buildings.~~
- B.IG6. ~~It may not be possible to complete a physical examination of all items of property, plant, and equipment. However, the physical condition could be estimated based on a combination of factors including, for example, age, construction materials and methods, breaks per kilometer, geological, and soil conditions.~~
- B.IG7. ~~Financial statement discussion and analysis may provide the average age and either the average remaining useful life or estimated average useful life of property, plant, and~~

~~equipment in each major class. Information about the average age and the useful life allows users to assess the timing of rehabilitation and replacement expenditures.~~

B.IG8. ~~Financial statement discussion and analysis may contain a description and the quantity of the major components of property, plant, and equipment in each major class of asset. Providing this information gives users an understanding of the nature and extent of the stock of property, plant, and equipment.~~

B.IG9. ~~The quantity could be based on a unit of measurement that represents the common characteristics of the class of property, plant, and equipment being assessed or components thereof (e.g., lanes or kilometers for roads, kilometers of pipes for sewer for water systems, or the number of water treatment plants). This summary level unit of measure provides users with a reference that is useful in assessing the magnitude of the classes and components of items of property, plant, and equipment.~~

B.IG10. [Moved to paragraph IG2]

~~Other Assets~~

B.IG11. ~~Financial statement discussion and analysis may include the following information pertaining to an entity's other assets, to the extent they are material (e.g., inventories of supplies—see IPSAS 12, *Inventories*, and prepaid expenses):~~

- ~~(a) The nature, extent and purpose of inventories of supplies (e.g., maintenance materials, strategic stockpiles, and land/property held for resale); and~~
- ~~(b) The nature, extent, purpose, and timing of any prepaid items such as insurance.~~

~~Liabilities~~

B.IG12. ~~Financial statement discussion and analysis may include the following information pertaining to an entity's liabilities:~~

- ~~(a) A breakdown of the entity's debt by domestic issues versus foreign issues.~~
- ~~(b) A description of the entity's debt management policies and strategies, and the general terms and conditions associated with the debt, including whether the entity has complied with any debt covenants.~~
- ~~(c) An analysis of the entity's total debt. Specific ratios or indicators may also be useful to highlight the magnitude of the entity's debt and the changes in it over time. For example, an analysis of the total debt outstanding at year end to the total liabilities of the entity may be provided. The impact of the debt servicing cost, expressed as public debt charges to revenues, may also be included. An assessment of any unfunded retirement and other employment or post-employment benefit liabilities. This may include a discussion related to the timing of when the unfunded liability needs to be provided for.~~
- ~~(d) An analysis of revenues that are not earned at the end of the period including the terms and conditions (e.g., commitments) associated with them. The entity is not entitled to these revenues until it performs specific actions as outlined in the terms and conditions of the related contract or agreement. For example, in the case of service concession~~

~~arrangements in which the operator is compensated by the entity granting it the right to earn third-party revenues, there may be substantial liabilities of this type.~~

- ~~(e) The nature of financial liabilities under service concession arrangements.~~
- ~~(f) An analysis of any sinking funds available for the discharge of long-term liabilities.~~

~~Net Assets/Equity~~

- ~~B.IG13. An analysis of net assets/equity provides users with information relevant in assessing the entity's overall financial position, and whether it has improved or deteriorated. Providing significant explanations and a trend analysis related to the net assets/equity provides users with an indication as to whether the entity's liabilities are growing and allows them to make assessments about whether current levels of taxes or other charges are sufficient to maintain the volume and quality of services currently provided or to undertake any planned enhancements. For example, explanations and a trend analysis related to the assets/equity may indicate to users that while debt is growing, the entity is accumulating resources, such as property, plant, and equipment.~~

~~Financial Performance~~

- ~~B.IG14. Information about the financial performance will inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives. Information about the costs of service delivery and the amounts and sources of cost recovery during the reporting period will enable users to determine whether operating costs were recovered from, for example, taxes, user charges, contributions and transfers or were financed by increasing the level of indebtedness of the entity.~~
- ~~B.IG15. Any currently known conditions that have significantly affected revenues or expenses in the current period, as well as those that may impact future revenues or expenses, should be disclosed to assist users in determining trends.~~

~~Revenues~~

- ~~B.IG16. Financial statement discussion and analysis may include the following information pertaining to an entity's revenues:~~
- ~~(a) An overview of total revenues by major source to indicate trends and dependencies on specific sources.~~
 - ~~(b) Ratios may also be provided to highlight the level of dependence the entity has on particular sources of revenues, for example:
 - ~~(i) Public to public transfers to revenues generated by the entity (e.g., taxes, user fees, licences); and~~
 - ~~(ii) Revenues generated by the entity as a percentage of total revenues.~~~~
 - ~~(c) The impact of the of government business enterprises on the entity as a whole, which may be relevant especially if there are restrictions placed on the use of a government business enterprise's net assets.~~

- (d) ~~An analysis of the change in revenues by major source.~~

~~Expenses~~

B.IG17. ~~Financial statement discussion and analysis may include the following information pertaining to an entity's expenses:~~

- (a) ~~An overview of total expenses by nature (e.g., depreciation, purchases of materials, transport costs, employee benefits, and advertising costs).~~
- (b) ~~An overview of total expenses by function.~~
- (c) ~~An analysis of debt servicing costs as a percentage of total expenditures, which helps to highlight the magnitude of expenses that is required to service past obligations and thus reduces the amount of funds that can be directed to various programs. Alternatively, debt servicing costs as a percentage of revenues could be provided.~~
- (d) ~~An analysis of significant changes in expenses by nature and function.~~

~~Surplus or Deficit for the Period~~

B.IG18. ~~An analysis of the surplus or deficit for the period provides users with information relevant in determining whether the entity was able to raise enough revenues in the period to cover its costs and spending and whether the trend is likely to continue in the future.~~

B.IG19. ~~Financial statement discussion and analysis may include the following information pertaining to an entity's surplus or deficit for the period:~~

- (a) ~~An analysis of net revenues or expenses by nature (for example, depreciation, purchases of materials, transport costs, employee benefits, and advertising costs).~~
- (b) ~~A comparison of direct / identifiable program revenues to expenses by function, to illustrate the amount of program spending funded through taxation.~~
- (c) ~~Analyses of specific, significant non-recurring transactions or events such as:~~
 - (i) ~~Write-downs of inventories to net realizable value or of property, plant, and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;~~
 - (ii) ~~Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;~~
 - (iii) ~~Disposals of items of property, plant, and equipment;~~
 - (iv) ~~Privatizations or other disposals of investments;~~
 - (v) ~~Discontinuing operations;~~
 - (vi) ~~Litigation settlements; and~~
 - (vii) ~~Other reversals of provisions.~~

~~In these cases, the nature of the revenue or expense and a discussion of its impact on future operations would be disclosed.~~

Cash Flows

- B.IG20. ~~Information about the cash flows contributes to assessments of financial performance and the entity's liquidity and solvency. It indicates how the entity raised and used cash during the period, including its borrowing and repayment of borrowing and its acquisition and sale of, for example, property, plant, and equipment. It also identifies the cash received from, for example, taxes and investments and the cash transfers made to, and received from, other governments, government agencies, or international organizations. Information about cash flows can also support assessments of the entity's compliance with spending mandates expressed in cash flow terms, and inform assessments of the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.~~
- B.IG21. ~~Financial statement discussion and analysis may include the following information pertaining to an entity's cash flows from operating, investing, and financing activities:~~
- ~~(a) An analysis of the cash flows arising from operating activities such as:~~
 - ~~(i) The gross cash receipts and payments arising from the normal operations of the entity (e.g., the gross cash receipts from taxation, user fees or transfers from other entities).~~
 - ~~(ii) Significant cash requirements or payments made during the period (e.g., payments to and on behalf of employees).~~
 - ~~(b) An analysis of cash flows arising from investing activities such as:~~
 - ~~(i) Expenditures made to acquire resources (e.g., property, plant, and equipment, investment property, and intangible assets) intended to generate future cash flows and service potential; and~~
 - ~~(ii) Significant changes in such investments, including any additions or disposals during the current year.~~
 - ~~(c) An analysis of financing activities, which provides information relevant in assessing future cash flow requirements due to debt financing arrangements. This analysis may highlight cash proceeds from debt issues or redemptions. It may also highlight significant changes in capital leases. Further, it may be helpful in explaining the need for borrowing even though the entity has reported a surplus in its statement of operations.~~
 - ~~(d) Analysis of whether the entity has complied with any spending mandates expressed in cash flow terms.~~
 - ~~(e) Trend analyses of operating, investing and financing cash flows, or components thereof.~~

Commitments, Contingencies, and Events after the Reporting Date

- B.IG22. ~~Where they are significant to the entity, information may be required pertaining to events occurring after the reporting date and planned future events, such as those described in paragraph B13(c), but which did not occur in the reporting period, and are therefore not reflected in the entity's financial statements. Such information assists users in assessing~~

~~future revenue requirements of the entity. Financial statement discussion and analysis may include the following additional information:~~

- ~~(a) A subsequent issue of debenture debt;~~
- ~~(b) Litigation;~~
- ~~(c) Capital and operating leases;~~
- ~~(d) Service concession arrangements; and~~
- ~~(e) Various types of guarantees.~~

B.IG23. ~~Although such disclosures are required to be provided in the notes to the financial statements in accordance with various IPSASs, further elaboration of such transactions and events may assist in providing greater insight as to how such events may affect the entity's future operations.~~

Section C: Examples of Information about Variances and Trends

C.IG1. [Moved to paragraph IG5]

~~Actual-to-Budget Variances~~

C.IG2. ~~Paragraph 29(b) of IPSAS 24, *Presentation of Budget Information in Financial Statements*, requires explanations of material differences between actual and budget amounts to be included in the notes to the financial statements, unless (a) included in other public reports or documents issued in conjunction with the financial statements, and (b) the notes to the financial statements identify the reports or documents in which the explanation can be found.~~

C.IG3. ~~In cases where this exemption is followed and the explanations are presented in financial statement discussion and analysis, paragraph 14 of IPSAS 24 requires a cross-reference to those documents to be made in the notes to the financial statements. Where such a comparison is included in financial statement discussion and analysis, a cross-reference to the financial statements should be provided in the financial statement discussion and analysis.~~

~~Year-to-Year Variances and Trends~~

C.IG4. [Moved to IG6]

C.IG5. ~~In some cases, a significant change may have occurred during the reporting period, but the financial statements and quantitative analyses may not illustrate a significant variance because of offsetting factors. Explanations contained in financial statement discussion and analysis may identify and explain significant variances between the current year and prior year such as variances due to changes in how a service is delivered, changes in programs and services provided, and changes due to the level of revenues raised or costs incurred. Some of these may be within the control of the entity (e.g., taxation rates, new or discontinued programs or services, restructuring operations, or changing the method of service delivery), while others may be more due to external factors (e.g., a downgraded credit rating, a decreased tax base, wage contracts, and unexpected events such as a natural~~

- ~~disaster). Such explanations may assist users in assessing possible future changes in current services and commitments of the entity.~~
- C.IG6. ~~Trend analysis may cover several prior years if the information is available and can be presented in a consistent manner. In such cases, the source of information related to periods not covered by the comparative information in the financial statements to which the financial statement discussion and analysis pertains would be disclosed.~~
- C.IG7. ~~In cases where the presentation of the underlying financial statements has changed in accordance with paragraph 42 of IPSAS 1, the presentation of any information in the financial statement discussion and analysis based on the changed financial statements should also change.~~
- C.IG8. ~~When historical information is not readily available on which to base trend analyses for some or all of the entity's operations an entity should, on a best-efforts basis, include in the financial statement discussion and analysis, the information it possesses that meets the qualitative characteristics and indicate that historical information is not readily available. When the data is available for only part of the reporting entity, the financial statement discussion and analysis should be provided on a limited-scope basis, and clearly describe the scope of information including the fact that information related to certain activities is not available. This allows an entity to begin trending the relevant data.~~
- C.IG9. [Moved to IG7]

Illustrative Example

At its September 2012 meeting the IPSASB tentatively agreed not to include an illustrative example and so it has not been reproduced.

DRAFT IPSAS XX—FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

CLEAN VERSION

Objective

1. The objective of this Standard is to establish principles for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial statements.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard when preparing its financial statement discussion and analysis. The reporting boundary for financial statement discussion and analysis shall be the same as that used for the financial statements.**
- 2A. Financial statement discussion and analysis is not a component of the financial statements. IPSAS 1, *Presentation of Financial Statements*, sets out the requirements for the composition of financial statements.
3. [Moved to paragraph 5C]
4. **This Standard applies to all public sector entities other than Government Business Enterprises.**
5. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1.
- 5A. This Standard does not mandate the level of assurance (if any) to which financial statement discussion and analysis should be subjected.

Identification of Financial Statement Discussion and Analysis

- 5B. [Was paragraph 11] **Financial statement discussion and analysis shall be clearly identified, and distinguished from the financial statements and from other information in the same published document.**
- 5C. [Was paragraph 3] This Standard applies only to financial statement discussion and analysis. It does not apply to other information included in public documents issued at the same time as the financial statements. Financial statement discussion and analysis may be published as a separate report, or as part of the report that includes the financial statements or as part of another report.
- 5D. [Was paragraph 12] Separate identification of financial statement discussion and analysis enables users to distinguish:
 - (a) Financial statements prepared and presented under the accrual basis of accounting in accordance with IPSASs applicable to the financial statements;

- (b) Financial statement discussion and analysis prepared in accordance with this Standard; and
- (c) Other information presented in an annual report or other document that may be useful to users but is not the subject of requirements in IPSASs.

Reporting Period

- 6. **Financial statement discussion and analysis shall be presented at least annually and shall use the same reporting period as that used for the financial statements. An entity shall issue the financial statement discussion and analysis at the same time as its financial statements.**
- 7. IPSAS 1 requires financial statements to be prepared at least annually. This Standard imposes the same requirement for financial discussion and analysis.

Definition

- 8. **The following term is used in this Standard with the meaning specified:**

Financial statement discussion and analysis is an explanation of the significant items, transactions, and events presented in an entity's financial statements and the factors that influenced them.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

- 9. [Moved to paragraph 9C]

Key Principles of Financial Statement Discussion and Analysis

- 9A. **An entity's financial statement discussion and analysis shall provide an explanation of the significant items, transactions, and events presented in the entity's financial statements and the factors that influenced them.**
- 9B. [Was paragraph 16] Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users' to gain an insight on the operations of the entity from the perspective of the entity itself. It also provides the opportunity to reflect the entity's interpretation of significant events and transactions affecting the financial performance and position of the entity. Therefore, financial statement discussion and analysis complements and supplements the information in the financial statements.
- 9C. [Was paragraph 9] **Financial statement discussion and analysis shall include information that possesses the qualitative characteristics of financial reporting.**
- 9D. The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. See Phase 1 of the *Conceptual Framework* for further details.
- 9E. Financial statement discussion and analysis includes only information that is material.

Content of Financial Statement Discussion and Analysis

- 10. **The content of financial statement discussion and analysis shall be consistent with the financial statements, and based on currently-known facts and supportable assumptions.**

- 10A. **The presentation of information in financial statement discussion and analysis shall be retained from one period until the next unless another presentation would be more appropriate.**
- 10B. An entity changes the presentation of its financial statement discussion and analysis only if the changed presentation provides information that is more relevant to users, and the revised structure is likely to continue, so that comparability is not impaired.
11. [Moved to paragraph 5B]
12. [Moved to paragraph 5D]

Compliance with this IPSAS

13. **An entity whose financial statement discussion and analysis complies with this IPSAS shall make an explicit and unreserved statement of such compliance. Financial statement discussion and analysis shall not be described as complying with this IPSAS unless it complies with all the requirements of this IPSAS.**
- 13A. An entity can claim compliance with this IPSAS where it has complied with all of the requirements. This requirement does not mean that an entity also has to comply with IPSASs applicable to the financial statements because (a) financial statement discussion and analysis is not a component of the financial statements listed in paragraph 21 of IPSAS 1 and (b) compliance with IPSASs applicable to the financial statements is dealt with in IPSAS 1.
14. In some jurisdictions, preparation and presentation of financial statement discussion and analysis is a legislative or regulatory requirement, or required by other externally-imposed regulations. Entities are encouraged to disclose information about compliance with those requirements.

Content

15. **To the extent it supplements and does not replicate information in the financial statements, financial statement discussion and analysis shall include:**
- (a) **An overview of the entity's operations and environment;**
 - (b) **Information about the entity's financial objectives and strategies;**
 - (c) **An analysis of the entity's financial statements, including variances and trends; and**
 - (d) **Information about the entity's risks and uncertainties, including its risk management strategy.**
16. [Split and moved to paragraphs 9A and 17A]
17. The form and content of an entity's financial statement discussion and analysis will vary depending on the nature of the entity and the regulatory environment in which it operates.
- 17A. [Based on paragraph 16] When information is required to be included in the financial statements by relevant IPSASs, the financial statement discussion and analysis does not merely repeat what is in the financial statements, but analyzes and explains how items affect the entity's financial performance and position. The financial statement discussion and analysis includes cross-references to the financial statements where appropriate to avoid duplication of information.

Overview of the Entity's Operations and Environment

17B. An entity shall provide an overview of its operations and the environment in which it operates.

18. An overview of the entity helps users to understand the entity's operations and how the environment in which it operates affects its financial statements. This information is the starting point in assisting users' understanding of an entity's financial statements. Information provided about an entity's operations in financial statement discussion and analysis may include current information, and changes from the prior year, about:

- (a) The entity's mission and vision;
- (b) The entity's governance (e.g., legislative or regulatory structure, management structure);
- (c) The entity's relationships with other entities with a focus on relationships that could significantly affect the entity's financial performance and position (e.g., funding arrangements);
- (d) External trends, events and developments in the legal, regulatory, social, political, and macro-economic environment specific to the entity, which have or may have a significant impact on the entity's financial position and financial performance (e.g., the impact of a regional or international financial crisis on employment, the tax base, or interest rates); and
- (e) The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.

Information about the Entity's Financial Objectives and Strategies

18A. An entity shall disclose its financial objectives and strategies.

19. Financial statement discussion and analysis discusses the entity's financial objectives and strategies in a way that enables users of the financial statements to understand the entity's priorities and to identify the resources that must be managed to achieve these objectives and strategies. Financial statement discussion and analysis also explains how the achievement of the entity's financial objectives (e.g., debt reduction strategy) will be measured and over what time period the achievement will be measured.
20. Financial statement discussion and analysis discusses significant changes in an entity's financial objectives and strategies from the previous period or periods.

Analysis of the Entity's Financial Statements

20A. An entity shall provide a description of its financial performance for the period and the significant events and transactions that have affected it.

21. Financial statement discussion and analysis describes the significant events and transactions that have affected the financial statements, without simply reiterating the information presented in the financial statements. Judgment is required in the identification of the significant events and transactions.
22. If information from the financial statements has been adjusted for inclusion in financial statement discussion and analysis, that fact is disclosed. If financial performance measures that are not

required or defined by IPSASs are included within financial statement discussion and analysis, those measures are defined and explained, including an explanation of the relevance of the measure to users. When financial performance measures are derived or drawn from the financial statements, those measures are reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs. In addition, narrative explanations of such illustrations are provided if necessary to faithfully represent the information.

23. **Comparative information shall be included in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statements.**
24. Financial statements can have a predictive or prospective role. This Standard does not require the entity to disclose forward-looking information, such as forecasts or projections.
25. [Deleted]
26. When an entity is required or elects to make their approved budgets(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of budget and actual amounts in the financial statements. IPSAS 24 also requires an explanation of material differences between the budgeted and actual amounts and permits an entity to disclose this information either in the notes to the financial statements or in financial statement discussion and analysis. When an entity elects to include this information in its financial statement discussion and analysis, it applies the guidance in IPSAS 24 to these disclosures.
- 26A. When an entity does not make its approved budget publicly available it is encouraged to include information in its financial statement discussion and analysis about significant positive and negative variances between actual results and the approved budget.

Risks and Uncertainties

26B. **An entity shall disclose:**

- (a) **Its principal risk exposures;**
 - (b) **Changes in those risks since the last reporting date;**
 - (c) **Its strategies for bearing or mitigating those risks;**
 - (d) **Any underlying assumptions; and**
 - (e) **The effectiveness of its risk management strategy.**
27. Information about the entity's risks and uncertainties helps users to evaluate the impact of risks in the current period (e.g., contingent liabilities disclosed in the financial statements) as well as expected outcomes. This information is fact-based, takes into account currently-known conditions and is neutral.
 28. Information about the entity's risks and uncertainties may include a discussion of such matters as a summary of the entity's investment policy, insurance coverage and other means of managing its risks, other controls intended to safeguard the entity's assets and environmental issues. It may also include the relevant legislation, regulation or body that sets the risk management policies for the entity.
 29. A discussion of how the entity manages its risks helps users obtain a faithful representation of the entity's exposure to risks that directly affect financial statement items, which allows them to

evaluate the entity's financial position and financial performance. Such disclosure may include the entity's decision to "self-insure", or to mitigate risk by transferring or sharing it, or through insurance.

- 30. [Deleted]
- 31. A discussion of the risks the entity faces also provides relevant information to users about exposure or vulnerability to concentrations of risks such as significant loans to particular regions or industries, or dependence on a particular source of revenue.
- 32. Risks and uncertainties may have a pervasive effect on the financial statements, therefore information relating to risks and uncertainties may be reported separately, or in relevant sections throughout the financial statement discussion and analysis.

Transition

- 33. **All provisions of this Standard shall be applied from the date of first adoption of this Standard.**
- 34. **An entity that has applied the transitional provision in IPSAS 1 to present only current period information in the financial statements to which accrual accounting is first adopted in accordance with IPSASs is permitted to omit the comparative information required by paragraph 23 from its financial statement discussion and analysis for that period.**

Effective Date

- 35. **An entity shall apply this Standard to financial statement discussion and analysis covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before MM DD, YYYY, it shall disclose that fact and apply IPSAS 1, IPSAS 24 and IPSAS 30, *Financial Instruments: Disclosures* at the same time.**
- 36. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's financial statement discussion and analysis covering periods beginning on or after the date of adoption.

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS XX (ED 47).

- IG1. [Was paragraph immediately below Section B heading] This Implementation Guidance suggests possible ways to apply some of the disclosure requirements in IPSAS XX [ED 47]. The guidance does not create additional requirements. .

Property, Plant, and Equipment

- IG2. [Was paragraph B.IG10] Information which may promote a better understanding of an entity's property, plant, and equipment builds on the information in the financial statements. Reporting on the physical condition of property, plant, and equipment assists users when assessing:
- (a) The trends in the physical condition;
 - (b) The adequacy of existing maintenance, replacement and renewal funding; and
 - (c) The extent of current and future revenues needed to maintain, renew, and replace property, plant, and equipment.
- IG3. [Was paragraph B.IG3] Financial statement discussion and analysis may include an analysis of required maintenance, including future expenditure requirements for maintenance, to allow users to make informed decisions regarding the ability of the capital assets to sustain and provide services in the future relating to an entity's property, plant, and equipment.

Use of Ratios or Indicators

- IG4. [New paragraph] Financial statement discussion and analysis may include ratios or indicators to assist users' understanding of financial statement items. Some examples are:
- (a) [Based on paragraph B.IG16(d)] An analysis of the change in revenues by major source may be useful in explaining how the entity's operations have changed over the reporting period;
 - (b) [Based on paragraph B.IG16(b)(i)] Revenues received from other levels of government or international entities may be useful in explaining the level of dependence the entity has on particular sources of revenues;
 - (c) [Based on paragraph B.IG12(c)] The percentage of finance expenses to total revenues may be useful in explaining the magnitude of servicing existing debt;
 - (d) [Based on paragraph B.IG12(c)] The percentage of financial liabilities to total liabilities may be useful in explaining the magnitude of the entity's debt level; and
 - (e) [Based on paragraph B.IG16(c)] The percentage of total assets of GBEs to total assets of the economic entity may be relevant where restrictions are placed on the use of a GBEs assets.

Variances and Trends

- IG5. [Was paragraph C.IG1] Paragraph 15(c) requires financial statement discussion and analysis to include information about the entity's financial statements, including variances and trends.

- IG6. [Was paragraph C.IG4] Financial statement discussion and analysis may include an analysis of trends in an entity's financial position and financial performance that is useful to users' because it includes reporting periods earlier than the periods presented in the financial statements. For example:
- (a) Analysis of changes in revenues by major source may indicate trends and dependencies on specific revenue sources.
 - (a) Analysis of changes in expenses may demonstrate the entity's allocation and use of resources, and assist in evaluating the cost of borrowing to finance spending.
- IG7. Other changes may affect the trend analysis. For example, when an entity restructures its operations or chooses an alternative method of service delivery, this may affect certain trends. In cases where such changes have significantly affected a trend, the financial statement discussion and analysis should describe the reasons for the changes in the trend to assist users in understanding and assessing the financial effect of those changes.