

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Toronto, Canada

**Meeting Date:** June 17–20, 2013

## Agenda Item 4

For:

☒ Approval

☐ Discussion

☐ Information

### Financial Statement Discussion and Analysis

#### Objective(s) of Agenda Item

1. The objective of this session is to **approve** draft RPG 2, *Financial Statement Discussion and Analysis*.

#### Material(s) Presented

Agenda Item 4.1	Issues Paper
Agenda Item 4.2	Draft RPG 2, <i>Financial Statement Discussion and Analysis</i> Marked-Up Version
Agenda Item 4.3	Draft RPG 2, <i>Financial Statement Discussion and Analysis</i> Clean Version—Core Text and Basis for Conclusions Only
Agenda Item 4.4	Comparison of ED 47 and Draft RPG 2 Marked-Up Version—Core Text Only
Agenda Item 4.5	Side-by-Side Comparison of ED 47 and Draft RPG 2—Core Text Only

#### Action(s) Requested

2. The IPSASB is asked to consider the “Matters for Consideration” in Agenda Paper 4.1.

## **Issues Relating to Draft RPG 2, *Financial Statement Discussion and Analysis***

### **Objective of this Session**

1. The objective of this session is to **approve** RPG 2, *Financial Statement Discussion and Analysis* (FSDA).

### **Structure of this Issues Paper**

2. The paper is divided into a review and approval of RPG 2 and consideration of due process issues.

### **Review and Approval of RPG 2**

3. At its meeting in March 2013, the IPSASB agreed that the draft IPSAS on FSDA should be redrafted as a RPG since it relates to a general purpose financial report (GPFR) rather than general purpose financial statements (GPFs). The IPSASB also directed staff to check this draft RPG for consistency with draft RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* (LTFS) (see Agenda Item 7) and to include a Basis for Conclusions for review.
4. In March 2013 the IPSASB conducted a page-by-page review of the FSDA materials in order to identify any issues. Agenda Paper 4.2 presents a marked-up version of the draft RPG 2 from the March 2013 agenda papers. The clean version of the core text and Basis for Conclusions is in Agenda Paper 4.3. The focus of this meeting will be a review of the changes that resulted from the page-by-page review as well as the Basis for Conclusions. Note that the IPSASB has not previously considered the Basis for Conclusions.

<h4><b>Matter(s) for Consideration</b></h4>
---

- |   |
|---|
| <ol style="list-style-type: none"> <li>1. The IPSASB is asked to conduct a page-by-page review of the draft RPG 2 in Agenda Paper 4.2 and to vote on its approval.</li> </ol> |
|---|

### **Due Process Issues**

#### **Background**

5. ED 47, *Financial Statement Discussion and Analysis*, which was issued in March 2012, proposed that FSDA be an authoritative standard and so was drafted in that format. When revising the materials as a RPG, staff notes that the draft RPG required a number of amendments from ED 47. Agenda Paper 4.4 provides a comparison of ED 47 with the draft RPG in mark-up and Agenda Paper 4.5 is a side-by-side comparison of ED 47 with the draft RPG.
6. The differences resulted primarily from the change in status from an authoritative pronouncement to a non-authoritative pronouncement. This has led to the following consequential amendments:
  - (a) The deletion of the proposed consequential amendments to other IPSASs;
  - (b) The deletion of five paragraphs because they are standard paragraphs that are included in IPSASs. Specifically: paragraph 5 relating to GBEs, paragraphs 33 and 34 relating to transitional provisions and paragraphs 35 and 36 relating to the effective date.

- (c) Revisions to ensure that the draft RPG is consistent with the LTFS draft RPG. This includes revisions to paragraphs 1, 2, 8, 10 and 11, and the insertion of paragraph 7.
7. In addition to these changes, the wording and order of the core text has been revised to reflect the directions of the IPSASB arising from its review of responses at its September 2012, December 2012 and March 2013 meetings. In particular, the IPSASB agreed to delete the proposed Implementation Guidance and the proposed Illustrative Example.

**IFAC Standards-Setting Public Interest Activity Committee (PIAC) Criteria for Re-exposure**

8. The IPSASB does not have documented criteria for re-exposure. However, the other Public Interest Activity Committees of IFAC have documented "Due Process and Working Procedures" (issued in March 2010) which are appropriate to apply in this circumstance and which have been applied previously, most recently in assessing service concession arrangements. Re-exposure of proposed pronouncements, while allowed for under due process, is expected to be a rare and unusual occurrence.
9. For the purposes of this meeting, staff has identified the most relevant paragraphs of these working procedures to be paragraphs 20–26 as well as paragraphs A38–A42 all of which are set out below for ease of reference.
10. In terms of process, paragraph 22 highlights that the Board votes on approval of the final revised content as the first step in the approval process. Paragraph 23 highlights that after approving the final revised content the Board takes the second step to vote on whether re-exposure is necessary. Paragraph 22 notes that approval of final content is for its issue as a final pronouncement unless an affirmative vote for re-exposure is subsequently made in the second step. Under paragraph 23 an affirmative vote in accordance with the terms of reference requires that two-thirds of Board members vote in favor of re-exposure in order for a re-exposure draft to be issued. If two-thirds of Board members do not vote in favor of re-exposure, the approved final content is issued as a final pronouncement.
11. Paragraphs A38–A42 highlight the process when re-exposure is being considered, including possible criteria to be considered. These criteria are used to assess the revisions to ED 47.

Extract from "Due Process and Working Procedures" Document

**Approval of an International Pronouncement, and Consideration of the Need for Re-Exposure**

20. When the Project Task Force is satisfied that it has a proposed final international pronouncement that is ready for approval, it presents the revised content of the exposed international pronouncement to the PIAC for approval.
21. The senior staff member of the PIAC is responsible for advising the PIAC on whether due process has been followed effectively and with proper regard for the public interest before a final international pronouncement is approved for issue. (Ref: Para. A36-A37)
22. The PIAC votes on the approval of the final revised content of an exposed international pronouncement in accordance with its terms of reference. Approval of the final revised content of an exposed international pronouncement is an approval for its issue as a final international pronouncement, unless the PIAC subsequently votes in favor of re-exposure as described below.

(Ref: Para. A38-A39)

23. After approving the final revised content of an exposed international pronouncement, the PIAC votes on whether there has been substantial change to the exposed document such that re-exposure is necessary. An affirmative vote in accordance with the PIAC's terms of reference that re-exposure is necessary is required to issue a re-exposure draft. The basis of the PIAC's decisions with respect to re-exposure is recorded in the minutes of the PIAC meeting at which the related project is discussed. (Ref: Para. A40-A42)
24. When an exposure draft is re-exposed, the explanatory memorandum accompanying the re-exposure draft includes the reasoning for re-exposure and sufficient information to allow an understanding of the changes made as a result of the earlier exposure.
25. Where applicable, the PIAC will set an effective date for the application of the final international pronouncement. (Ref: Para. A43)
26. For each final international pronouncement, the PIAC issues a separate document explaining its basis for conclusions with respect to comments received on an exposure draft. (Ref: Para. A44)

...

*Approval* (Ref: Para. 22)

- A38. The results of voting, including dissenting votes and the reason(s) therefore, on the approval of the revised content of an exposure draft are recorded in the minutes of the meeting.
- A39. The agenda paper containing the draft proposed revised content of exposed international pronouncement is updated for changes agreed by the PIAC during the course of the meeting and is posted to the IFAC website after the meeting at which the PIAC approves the final international pronouncement. The updated agenda paper posted to the IFAC website is for information purposes only and is not the final pronouncement. The final pronouncement is that approved by the PIAC and published by IFAC after the PIOB has confirmed that due process was followed in its development.

*Re-Exposure* (Ref: Para. 23)

- A40. When an exposure draft has been subject to many changes, a summary comparative analysis is presented to the PIAC. This analysis shows, to the extent practicable, the differences between the exposure draft and the proposed final international pronouncement.
- A41. The senior staff member of the PIAC, in consultation with the Chair of the PIAC and chair of the Project Task Force, advises the PIAC on whether a draft international pronouncement, or part thereof, needs to be re-exposed.
- A42. Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the PIAC before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the PIAC; or substantial change to the substance of a proposed international pronouncement.

12. Staff considered the guidance in paragraph A42 in determining whether re-exposure is required. In particular, the following criteria were considered:
  - (a) Were substantial changes made to ED 47 arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known?

- (b) Were substantial changes made to ED 47 arising from matters not previously deliberated?
  - (c) Were substantial changes made to the substance of the proposed pronouncement?
13. Staff considers that the substantive change from ED 47 to the draft final pronouncement is the change in status from an authoritative pronouncement to a non-authoritative pronouncement. ED 47 included Specific Matter for Comment (SMC) 1 asking respondents whether or not the ED should become an authoritative pronouncement. SMC 1 was worded as follows:
- “Do you agree that the material presented in this Exposure Draft should be developed as a mandatory IPSAS that applies to all entities that prepare financial statements in accordance with IPSASs?”
14. The comments for and against issuing ED 47 as an IPSAS were fairly evenly split, with a slight majority going to not issuing the material as an IPSAS. Of those not in favor of issuing ED 47 as an IPSAS, the majority expressed a clear view that it should be issued as guidance similar to the proposed RPG for LTFS.
15. As stated above, the IPSASB has agreed that the guidance should be issued as an RPG with further agreement that the status of the pronouncement could be reconsidered sometime in the future.
16. Staff considers that the other changes to the proposed text are not substantive and arise from matters that have been deliberated. For example, ED 47 included a SMC on the usefulness of the proposed Implementation Guidance and proposed Illustrative Example. The IPSASB's reasoning for these changes are explained in the Basis for Conclusions.

#### **Staff Conclusion**

17. Staff considers that the substantive change from an authoritative pronouncement has been addressed because ED 47 included a SMC on this issue and the change in status resulted from the consideration of respondents' comments. Staff also considers that the revised text improves the clarity of the guidance and that these changes do not rise to the level anticipated by the IFAC due process criteria. Staff believes that the changes in total do not substantively change the intent and principles underlying ED 47 and therefore re-exposure is not necessary.

<b>Matter(s) for Consideration</b>
------------------------------------

- |  |
|--|
| <p>2. The IPSASB is asked to confirm that re-exposure is not required.</p> |
|--|

**Final Pronouncement**  
July 2013

**RPG 2**

*Recommended Practice Guideline*

---

# Financial Statement Discussion and Analysis



International Public  
Sector Accounting  
Standards Board

This document was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

Copyright © July 2013 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page 17.

# FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

## CONTENTS

---

	Paragraph
Objective .....	1
Status and Scope .....	2–10
Definition .....	11
Identification of Financial Statement Discussion and Analysis .....	12–14
Presenting Financial Statement Discussion and Analysis .....	15–16
Content of Financial Statement Discussion and Analysis .....	17–33
Overview of the Entity's Operations and Environment .....	21
Information about the Entity's Objectives and Strategies that Relate to the Financial Statements .....	22–23
Analysis of the Entity's Financial Statements .....	24–28
Risks and Uncertainties that Relate to the Financial Statements .....	29–33
Appendix A: Existing Definitions in IPSASs	
Basis for Conclusions	

---



## Objective

1. ~~The objective of this~~ This Recommended Practice Guideline (RPG) Standard is to provide guidance establish principles for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial position and financial performance described by the general purpose financial statements (hereafter referred to as "financial statements").

## Status and Scope

2. The reporting of financial statement discussion and analysis in accordance with this RPG represents good practice. An entity preparing and presenting financial statement discussion and analysis is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs). ~~An entity that prepares and presents financial statements under the accrual basis of accounting using IPSASs shall prepare and present financial statement discussion and analysis in accordance with this Standard.~~
3. Financial statement discussion and analysis should ~~shall~~ be presented at least annually and should ~~shall~~ use the same reporting date period as that used for the financial statements.
4. The reporting boundary for financial statement discussion and analysis should ~~shall~~ be the same as that used for the financial statements.
5. Financial statement discussion and analysis should ~~shall~~ be issued published with the financial statements.

~~This Standard applies only to financial statement discussion and analysis. 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.~~

6. This RPG Standard applies to all public sector entities other than Government Business Enterprises (GBEs).
7. Although this RPG does not apply directly to GBEs, significant items, transactions, and events relating to GBEs that affect the entity's financial statements are within the scope of this RPG.

~~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.~~

## Compliance with this IPSAS

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

~~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.~~

9. 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 any such requirements.

~~An entity cannot claim compliance with this IPSAS where it has made material departures from the requirements of this standard in order to comply with legislative, regulatory or other externally-imposed requirements.~~

10. This ~~RPG does not provide guidance on Standard does not specify~~ the level of assurance (if any) to which financial statement discussion and analysis should be subjected.

## Definition

11. The following term is used in this ~~RPG 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 used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSASs) are set out in Appendix A. 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.~~

## Identification of Financial Statement Discussion and Analysis

12. Financial statement discussion and analysis ~~should shall~~ be clearly identified, and distinguished from the financial statements and from other information.
13. 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 ~~RPG 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.
14. Financial statement discussion and analysis should identify the financial statements to which it relates.

## Reporting Period

~~IPSAS 1 requires financial statements to be prepared at least annually. For consistency, financial discussion and analysis shall also be presented at least annually using the same reporting period.~~

## Presenting Key Principles of Financial Statement Discussion and Analysis

15. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users to gain an insight ~~into 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 items, transactions, and events affecting the financial performance and

position of the entity. Therefore, financial statement discussion and analysis complements the information in the financial statements.

16. Information in financial statement discussion and analysis ~~should~~ shall meet the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs).

~~The qualitative characteristics of financial reporting are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics are pervasive constraints on information included in GPFRs. See Chapter 3 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities for further details.~~

## Content of Financial Statement Discussion and Analysis

17. The content of financial statement discussion and analysis ~~should~~ shall be consistent with the financial statements and the underlying transactions and estimates, ~~and based on currently known facts and supportable assumptions.~~

### Content

18. To the extent it does not replicate information in the financial statements, financial statement discussion and analysis ~~should~~ shall include:

- (a) An overview of the entity's operations and the environment in which it operates;
- (b) Information about the entity's objectives and strategies that relate to the financial statements;
- (c) An analysis of the entity's financial statements including significant changes and trends ~~A description of the significant items, transactions and events that have affected the financial statements in the reporting period~~; and
- (d) A description of the entity's ~~its~~ principal financial risk and uncertainties that relate to the financial statements ~~exposures~~, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties.

19. 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.

20. Where financial statement discussion and analysis includes information that is also in the financial statements it ~~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 should ~~includes~~ cross-references to the financial statements where appropriate to avoid duplication of information.

## Overview of the Entity's Operations and Environment

21. 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 assists 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, relating to:

- (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); and
- (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 Objectives and Strategies that Relate to the Financial Statements**

- 22. Financial statement discussion and analysis should discuss ~~discusses~~ the entity's objectives and strategies relating to the financial statements 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. Such objectives and strategies relating to the financial statements could include protecting assets, the level of debt and the level of reserves. Financial statement discussion and analysis also explains how ~~the~~ achievement of the entity's objectives ~~(e.g., debt reduction strategy) would~~ will be measured and over what time period ~~the progress would achievement will~~ be measured.
- 23. Financial statement discussion and analysis discusses significant changes in an entity's objectives and strategies from the previous period or periods.

#### **Analysis of the Entity's Financial Statements**

- 24. Financial statement discussion and analysis should include an analysis of 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. Financial statement discussion and analysis describes the significant ~~items, events and transactions, and events~~ items, events and transactions, and events that have affected the financial statements, without simply reiterating the information presented in the financial statements. Judgment is required in identifying the identification of the significant ~~items, events and transactions, and events~~.
- 26. 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 the reasons for the use of such measures ~~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.~~

27. Comparative information ~~should~~ shall be disclosed in respect of the previous period(s) for ~~all~~ amounts ~~presented~~ reported in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statement discussion and analysis.

~~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.~~

28. 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 other public reports such as 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.

#### **Financial Risks and Uncertainties that Relate to the Financial Statements**

29. Financial statement discussion and analysis should discuss ~~information about~~ the entity's financial principal risks and uncertainties that relate to the financial statements and include an explanation of how this relates to the objectives and strategies of the entity. This information helps users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements or the use of foreign currency hedges to mitigate risk) as well as expected outcomes. ~~This information is fact-based, takes into account currently-known conditions and is neutral.~~
30. The description of the principal ~~financial~~ risks and uncertainties that relate to the financial statements facing the entity should cover ~~both~~ exposures to both negative consequences and potential opportunities. ~~Financial statement discussion and analysis provides useful information when it discusses the principal financial risks and uncertainties necessary to understand the objectives and strategies of the entity. These~~ The principal financial risks and uncertainties can constitute ~~either a~~ significant external or internal risks to the entity.
31. A discussion of how the entity manages its ~~financial~~ risks and uncertainties that relate to the financial statements 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" in respect of some risks, or to mitigate ~~financial~~ risk by transferring or sharing it, or through insurance.
32. A discussion of the ~~financial~~ risks and uncertainties that relate to the financial statements the entity faces also provides relevant information to users about exposure or vulnerability to concentrations of ~~financial~~ risks such as significant loans to particular regions or industries, or dependence on a particular source of revenue.
33. ~~Financial~~ risks and uncertainties that relate to the financial statements may have a pervasive effect on the financial statements, ~~therefore,~~ therefore, information relating to these financial risks and uncertainties may be reported separately, or in relevant sections throughout ~~the~~ financial statement discussion and analysis.

## Transition

~~All provisions of this Standard shall be applied from the date of first adoption of this Standard.~~

~~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

~~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.~~

~~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**

**Existing Definitions in IPSASs**

<b>Term</b>	<b>Definition</b>	<b>Paragraph reference in this RPG</b>
<b>Approved budget</b>	The expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.	28
<b>Government Business Enterprise</b>	An entity that has all the following characteristics: (a) Is an entity with the power to contract in its own name; (b) Has been assigned the financial and operational authority to carry on a business; (c) Sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery; (d) Is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and (e) Is controlled by a public sector entity.	6
<b>Reporting date</b>	The date of the last day of the reporting period to which the financial statements relate.	3

## Basis for Conclusions

### Scope and Authority

- BC1. The IPSASB approved a project in March 2008 to address “narrative reporting”. In developing this ~~Standard pronouncement~~, the IPSASB clarified that the scope of the project is to address only those reports that provide discussion and analysis specifically ~~relating pertaining~~ to an entity’s general purpose financial statements (“financial statements”) as set out in IPSAS 1, *Presentation of Financial Statements* and not broader types of reports that may be considered general purpose financial reports as envisaged in the IPSASB’s *Conceptual Framework for General Purpose Financial Reports in the Public Sector (the Conceptual Framework)*.
- BC2. In undertaking this project, the IPSASB considered, under its Criteria for Modifying IASB Documents, whether to develop guidance that was converged with Management Commentary, an IFRS Practice Statement. The IPSASB did not consider this approach to be appropriate because:
- (a) The users identified in the Practice Statement are investors. *Chapter 2 of the Conceptual Framework IPSAS 1, Presentation of Financial Statements*, identifies different users, which results in different information needs related to the financial statements.
  - (b) Additionally, in the private sector there may be a strong influence from the securities exchanges and their regulators which help ensure and reinforce the information needs of the investors. In the public sector there may not be a comparable regulator, which participates in the process of standardizing financial statement discussion and analysis for a jurisdiction, and therefore reliance on the private sector guidance may result in loss of accountability in the public sector.
- BC3. Financial statement discussion and analysis is intended to address similar matters to reports that may be termed “management discussion and analysis” and “management commentary” in various jurisdictions. However, the IPSASB did not consider those terms to accurately describe the nature of the report in relation to the financial statements. The IPSASB decided it was important to link financial statement discussion and analysis to the financial statements because ~~the~~ financial statement discussion and analysis is intended to explain the financial statements, and not to stand alone. The IPSASB considers the term “financial statement discussion and analysis” clearly defines the scope of applicability ~~of this pronouncement of this Standard~~ and its close linkage to the financial statements.

### Exposure Draft (ED) 47, Financial Statement Discussion and Analysis

- BC4. ~~The IPSASB developed Exposure Draft (ED) 47, Financial Statement Discussion and Analysis which was issued in March 2012. This ED proposed that entities which prepare and present their financial statements in accordance with IPSASs, should be required to prepare financial statement discussion and analysis in accordance with this ED. This meant that in effect the ED financial statement discussion and analysis would have the same level of authority as accrual based IPSASs even though it related to a general purpose financial report (GPFR).~~
- ~~The IPSASB considered whether public sector entities that prepare and present financial statements in accordance with International Public Sector Accounting Standards (IPSAS):~~
- (a) ~~Should be required to prepare financial statement discussion and analysis; and~~



- (b) ~~If so, whether financial statement discussion and analysis should be included as an integral part of the general purpose financial statements.~~

BC5. ~~In developing the ED, the IPSASB considered considers that financial statement discussion and analysis provides additional information necessary to meet the objectives of financial statements. Furthermore, the IPSASB considered considers that in all cases, the benefits of providing financial statement discussion and analysis would outweigh the costs of preparing it, as the information is used in the preparation of the financial statements, and tailored to the specific circumstances of the entity. The IPSASB therefore concluded-proposed that financial statement discussion and analysis should be prepared by all entities that prepare their financial statements in accordance with IPSASs. The IPSASB concluded that all entities that prepare and present their financial statements in accordance with IPSASs should be required to prepare financial statement discussion and analysis in accordance with this IPSAS, which has the same level of authority as accrual based IPSASs.~~

~~The IPSASB decided it was important to develop a standard that provided principles for financial statement discussion and analysis, while allowing reporting on specific information most relevant to an entity. Accordingly, this Standard has been developed from a principles-based perspective that can be applied to all public sector entities. In addition, entities are encouraged to prepare financial statement discussion and analysis that meets their specific circumstances.~~

~~The IPSASB considered whether a requirement to issue financial statement discussion and analysis when an entity issues financial statements prepared in accordance with IPSASs would be an impediment to the adoption of IPSASs. The IPSASB considered that the users of financial statements in such jurisdictions may even have a greater need for the benefit of financial statement discussion and analysis to help explain the financial statements.~~

BC6. IPSAS 1 defines the scope of the financial statements. The IPSASB ~~did does~~ not consider financial statement discussion and analysis to be part of the financial statements prepared in accordance with IPSASs despite its close link to the financial statements. The IPSASB did not, therefore, propose to amend IPSAS 1 to include financial statement discussion and analysis as an integral part of the financial statements. ~~Nevertheless, the IPSASB has clarified the close link between the financial statements and financial statement discussion and analysis.~~

BC7. Some respondents to the ED raised the concern that entities may have problems with asserting compliance with IPSASs applicable to the financial statements if they do not follow the proposed requirements in the ED. In particular, respondents were concerned that financial statement discussion and analysis might still be considered to be a part of the financial statements even though the ED explicitly states that financial statement discussion and analysis is not a component of the financial statements. Some of these respondents suggested that this would not be an issue if the ED was developed into non-authoritative guidance, e.g., a Recommended Practice Guideline (RPG).

BC8. The IPSASB considered whether or not the ED should be developed as an IPSAS or whether it should become an RPG. Respondents to the ED were split on this issue with a slight majority favoring the material not becoming an IPSAS. Of those not in favor of issuing an IPSAS, the majority of respondents expressed a clear view that it should be issued as guidance in similar to the proposed RPG for *Reporting on the Long-Term Sustainability of an Entity's Finances*.

BC9. The IPSASB also considered this issue in the context of whether or not GFRs should be capable of being authoritative pronouncements. The IPSASB noted that the scope of its

Conceptual Framework is not limited to GPFSS. Therefore, the Conceptual Framework envisages authoritative pronouncements for GPFRs.

- BC10. There were contrasting views among members as to the status of pronouncements relating to GPFRs. Some members consider that if all pronouncements relating to GPFRs, other than GPFSSs, are non-authoritative it would be a retrograde step. These members consider that financial statement discussion and analysis is an essential component of GPFRs and therefore it should be an authoritative pronouncement because it is critical in helping entities to meet the accountability objective of financial reporting. In particular it enables users to gain an insight into the operations of the entity from the perspective of the entity itself. Moreover, financial statement discussion and analysis is a well-established area of GPFR, therefore it is appropriate that the guidance is authoritative.
- BC11. Other members consider that pronouncements relating to GPFRs should be non-authoritative because there is an issue about the potential impact on the audit report on the GPFSSs if pronouncements relating to GPFRs are authoritative. Furthermore, financial statement discussion and analysis is an explanation of the financial statements and users are able to get information from the financial statements irrespective of whether the entity prepares a financial statement discussion and analysis, in other words, the financial statements can stand on their own. These members acknowledged that while financial statement discussion and analysis is important for the accountability objective of financial reporting, it is not critical to the fair presentation of the financial statements.
- BC12. On balance the IPSASB decided that at this time the ED should be developed into a RPG. The IPSASB considers that this RPG provides useful guidance for entities and its flexible application would benefit entities in jurisdictions that have local requirements or regulations. It will also promote comparability across entities that present financial statement discussion and analysis. Furthermore, the IPSASB considers that the RPG might encourage entities that are not accustomed to presenting financial statement discussion and analysis to provide users with this information.
- BC13. Because financial statement discussion and analysis helps entities to meet the accountability objective of financial reporting the IPSASB decided that it should review the status of the RPG sometime in the future.

~~The IPSASB noted the concern that, if this Standard were an IPSAS, it could still be considered part of the financial statements and there could be confusion as to whether it would be subject to the same audit requirements as the financial statements. This could cause difficulties in some jurisdictions if the inclusion of financial statement discussion and analysis resulted in a qualified audit report on the financial statements. While the audit of financial statement discussion and analysis is desirable, the IPSASB considers that imposing an audit requirement on such information exceeds its mandate. However, it is noted that an audit of financial statements would not automatically require audited financial statement discussion and analysis. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework. The financial reporting framework for public sector entities is described in IPSAS 1, and does not include financial statement discussion and analysis.~~

~~To date, IPSASs have addressed only matters that pertain to the content of the financial statements themselves. The IPSASB considered whether it would be appropriate to allow for a~~

~~new type of pronouncement that had equivalent authoritative status to the IPSASs. The IPSASB is of the view that introducing a new type of pronouncement would be confusing to its constituents. Accordingly, the IPSASB has decided that an International Public Sector Accounting Standard (IPSAS) is the appropriate type of pronouncement to apply to the financial statement discussion and analysis.~~

### Qualitative Characteristics

BC14. ~~As a GPFR, The IPSASB decided also concluded that~~ the information in financial statement discussion and analysis should possess the qualitative characteristics of financial reporting taking into account the and constraints on information included in GPFRs as set out in Chapter 3 of the Conceptual Framework in IPSAS 1. Accordingly, ~~IPSAS XX (ED 47) this is reflected in paragraph 17 of the RPG contains requirements that financial statement discussion and analysis contain information that is consistent with those qualitative characteristics.~~

### ~~Structure and Content of Financial Statement Discussion and Analysis~~

~~Paragraph 21 of IPSAS 1 states that 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.~~

~~The IPSASB noted that in some of the minimum required content in paragraph 15 of IPSAS XX (ED 47) may also be required under other IPSASs for financial statements. IPSAS XX (ED 47) therefore requires financial statement discussion and analysis include significant items, transactions, and events that are presented in an entity's financial statements to the extent it does not replicate information in the financial statements.~~

~~The IPSASB noted that the content and format of presentation of financial statement discussion and analysis should be determined by the entity, in a way that best reflects its circumstances, noting that the specific information contained in an entity's financial statement discussion and analysis will vary depending on the facts and circumstances specific to the entity. The IPSASB wishes to avoid a checklist approach that may result in an entity reporting less relevant information. Accordingly, some flexibility is provided in the content and format. However, the Standard contains certain essential required content that is important to all financial statement discussion and analysis.~~

~~In determining the matters that should be required in financial statement discussion and analysis, the IPSASB reviewed and compared existing national standards, guidance, and regulatory requirements for financial statement discussion and analysis (or its equivalent) in the public sector. The existing approaches, identified in conducting the research, were used to help form the basis for the required content of financial statement discussion and analysis.~~

~~In some cases an IPSAS permits certain information to be included in separate reports (e.g., financial statement discussion and analysis) rather than in the financial statements. The IPSASB did not consider it necessary to duplicate the financial statement disclosure in the financial statement discussion and analysis and has accordingly provided guidance to that effect.~~

## Forward-Looking Information

- BC15. ~~The IPSASB considered whether it should recommend that an entity to disclose forward-looking information, such as forecasts ~~or projections~~. However, the IPSASB considered that whether or not forward-looking information can be included in financial statement discussion and analysis will vary depending upon the regulatory environment in which the entity operates. Moreover, the IPSASB considered that there is a potential for confusion if this RPG includes in its scope forward-looking information because RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* provides guidance on reporting long-term prospective financial information. Therefore, the IPSASB decided that the RPG did not need to include recommendations for disclosures relating to forward-looking information. However, the IPSASB noted that information in financial statements also has predictive ability about the entity's operations, and that financial statement discussion and analysis could enhance that ability. For example, information about an entity's risk management policies, and trend analyses of significant financial statement items, may assist users in assessing the extent to which resources will be available to support future service delivery objectives and the amounts and timing of future cash flows necessary to service and repay existing claims to the entity's resources. The IPSASB has thus provided guidance on how such information could be included in financial statement discussion and analysis.~~

## Implementation Guidance and Illustrative Example

- BC16. ED 47 included Implementation Guidance which included 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.
- BC17. The IPSASB decided that "Section A: Applicability of the Qualitative Characteristics of Financial Statements to Financial Statement Discussion and Analysis" (paragraphs A.IG1–A.IG20) is not necessary because Chapter 3 of the *Conceptual Framework* explains the qualitative characteristics of financial reporting. Accordingly, this section is not included in the RPG.
- BC18. The IPSASB discussed whether "Section B: Examples of Information about the Entity's Financial Statements" (paragraphs B.IG1–B.IG23) and "Section C: Examples of Information about Variances and Trends" (paragraphs C.IG1–C.IG9) should be retained in the RPG. Some respondents to the ED considered that the guidance was too detailed in some areas and not comprehensive in other areas. The IPSASB understood these concerns and additionally considered that undue emphasis could be placed on this guidance. Therefore, the IPSASB decided not to include these sections in the RPG.
- BC19. ED 47 included an Illustrative Example of a financial statement discussion and analysis of a national government. Some respondents to the ED suggested that an example needed to be developed for an entity that is not a national government. The IPSASB considered this suggestion

and the possibility that any illustrative examples would be used as a template, whereas entities preparing financial statement discussion and analysis should focus on the guidance in the RPG. Moreover, the IPSASB observed that best-practice examples are available from other sources. Therefore, the IPSASB decided not to include any illustrative examples in the RPG.

### **Transitional Provisions**

~~The IPSASB determined that a transitional provision was required to address the case when an entity has used the exemption under IPSAS 1 to not include comparative information in respect of the financial statements to which accrual accounting is first adopted in accordance with IPSASs. This Standard states that comparative information should be included in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statements. However, where an entity has applied the transitional provision in IPSAS 1 it is unlikely to have comparative information and thus it would not be possible to provide such comparative information.~~

International Public Sector Accounting Standards, Recommended Practice Guidelines, Exposure Drafts, Consultation Papers, and other IPSASB publications are published by, and copyright of, IFAC.

The IPSASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IPSASB logo, 'International Public Sector Accounting Standards Board', 'IPSASB', 'International Public Sector Accounting Standards' 'IPSAS', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © July 2013 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work provided that such copies are for use in academic classrooms or for personal use and are not sold or disseminated and provided that each copy bears the following credit line: *"Copyright © July 2013 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Contact [permissions@ifac.org](mailto:permissions@ifac.org) for permission to reproduce, store or transmit this document."* Otherwise, written permission from IFAC is required to reproduce, store, transmit, or make other similar uses of this document, except as permitted by law. Contact [permissions@ifac.org](mailto:permissions@ifac.org).

ISBN:

Published by:





**International Public  
Sector Accounting  
Standards Board**

529 Fifth Avenue, 6th Floor, New York, NY 10017  
T + 1 (212) 286-9344 F +1 (212) 286-9570  
[www.ipsasb.org](http://www.ipsasb.org)

## **Draft RPG 2, *Financial Statement Discussion and Analysis* Clean Version**

### **Objective**

1. This Recommended Practice Guideline (RPG) provides guidance for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial position and financial performance described by the general purpose financial statements (hereafter referred to as “financial statements”).

### **Status and Scope**

2. The reporting of financial statement discussion and analysis in accordance with this RPG represents good practice. An entity preparing and presenting financial statement discussion and analysis is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).
3. Financial statement discussion and analysis should be presented at least annually and should use the same reporting date as that used for the financial statements.
4. The reporting boundary for financial statement discussion and analysis should be the same as that used for the financial statements.
5. Financial statement discussion and analysis should be issued with the financial statements.
6. This RPG applies to all public sector entities other than Government Business Enterprises (GBEs).
7. Although this RPG does not apply directly to GBEs, significant items, transactions, and events relating to GBEs that affect the entity's financial statements are within the scope of this RPG.
8. An entity whose financial statement discussion and analysis complies with this RPG should make an explicit and unreserved statement of such compliance in its financial statement discussion and analysis. Financial statement discussion and analysis should not be described as complying with this RPG unless it complies with all the requirements of this RPG.
9. 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 any such requirements.
10. This RPG does not provide guidance on the level of assurance (if any) to which financial statement discussion and analysis should be subjected.

### **Definition**

11. The following term is used in this RPG 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 used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSASs) are set out in Appendix A.

## **Identification of Financial Statement Discussion and Analysis**

12. Financial statement discussion and analysis should be clearly identified, and distinguished from the financial statements and from other information.
13. 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;
  - (b) Financial statement discussion and analysis prepared in accordance with this RPG; 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.
14. Financial statement discussion and analysis should identify the financial statements to which it relates.

## **Presenting Financial Statement Discussion and Analysis**

15. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users to gain an insight into 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 items, transactions, and events affecting the financial performance and position of the entity. Therefore, financial statement discussion and analysis complements the information in the financial statements.
16. Information in financial statement discussion and analysis should meet the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs).

## **Content of Financial Statement Discussion and Analysis**

17. The content of financial statement discussion and analysis should be consistent with the financial statements and the underlying transactions and estimates.
18. To the extent it does not replicate information in the financial statements, financial statement discussion and analysis should include:
  - (a) An overview of the entity's operations and the environment in which it operates;
  - (b) Information about the entity's objectives and strategies that relate to the financial statements;
  - (c) An analysis of the entity's financial statements including significant changes and trends; and
  - (d) A description of the entity's principal risk and uncertainties that relate to the financial statements, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties.
19. 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.

20. Where financial statement discussion and analysis includes information that is also in the financial statements it does not merely repeat what is in the financial statements, but analyzes and explains how items affect the entity's financial performance and position. Financial statement discussion and analysis should include cross-references to the financial statements where appropriate to avoid duplication of information.

### **Overview of the Entity's Operations and Environment**

21. 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 assists 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, relating to:
- (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); and
  - (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).

### **Information about the Entity's Objectives and Strategies that Relate to the Financial Statements**

22. Financial statement discussion and analysis should discuss the entity's objectives and strategies relating to the financial statements 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. Such objectives and strategies relating to the financial statements could include protecting assets, the level of debt and the level of reserves. Financial statement discussion and analysis also explains how achievement of the entity's objectives would be measured and over what time period progress would be measured.
23. Financial statement discussion and analysis discusses significant changes in an entity's objectives and strategies from the previous period or periods.

### **Analysis of the Entity's Financial Statements**

24. Financial statement discussion and analysis should include an analysis of 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. Financial statement discussion and analysis describes the significant items, transactions, and events that have affected the financial statements, without simply reiterating the information

presented in the financial statements. Judgment is required in identifying of the significant items, transactions, and events.

26. 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 the reasons for the use of such measures. When financial performance measures are derived from the financial statements, those measures are reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs.
27. Comparative information should be disclosed in respect of the previous period(s) for amounts presented in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statement discussion and analysis.
28. When an entity is required or elects to make their approved budget(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 other public reports such as 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.

#### **Risks and Uncertainties that Relate to the Financial Statements**

29. Financial statement discussion and analysis should discuss the entity's principal risks and uncertainties that relate to the financial statements and include an explanation of how this relates to the objectives and strategies of the entity. This information helps users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements or the use of foreign currency hedges to mitigate risk) as well as expected outcomes.
30. The description of the principal risks and uncertainties that relate to the financial statements should cover exposures to both negative consequences and potential opportunities. These risks and uncertainties can constitute significant external or internal risks to the entity.
31. A discussion of how the entity manages its risks and uncertainties that relate to the financial statements 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" in respect of some risks, or to mitigate risk by transferring or sharing it, or through insurance.
32. A discussion of the risks and uncertainties that relate to the financial statements 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.
33. Risks and uncertainties that relate to the financial statements may have a pervasive effect on the financial statements. Therefore, information relating to these risks and uncertainties may be reported separately, or in relevant sections throughout financial statement discussion and analysis.

## Basis for Conclusions

### Scope and Authority

- BC1. The IPSASB approved a project in March 2008 to address “narrative reporting”. In developing this pronouncement, the IPSASB clarified that the scope of the project is to address only those reports that provide discussion and analysis specifically relating to an entity’s general purpose financial statements (“financial statements”) as set out in IPSAS 1, *Presentation of Financial Statements* and not broader types of reports that may be considered general purpose financial reports as envisaged in the IPSASB’s *Conceptual Framework for General Purpose Financial Reports in the Public Sector* (the *Conceptual Framework*).
- BC2. In undertaking this project, the IPSASB considered, under its Criteria for Modifying IASB Documents, whether to develop guidance that was converged with Management Commentary, an IFRS Practice Statement. The IPSASB did not consider this approach to be appropriate because:
- (a) The users identified in the Practice Statement are investors. Chapter 2 of the *Conceptual Framework* identifies different users, which results in different information needs related to the financial statements.
  - (b) Additionally, in the private sector there may be a strong influence from the securities exchanges and their regulators which help ensure and reinforce the information needs of the investors. In the public sector there may not be a comparable regulator, which participates in the process of standardizing financial statement discussion and analysis for a jurisdiction, and therefore reliance on the private sector guidance may result in loss of accountability in the public sector.
- BC3. Financial statement discussion and analysis is intended to address similar matters to reports that may be termed “management discussion and analysis” and “management commentary” in various jurisdictions. However, the IPSASB did not consider those terms to accurately describe the nature of the report in relation to the financial statements. The IPSASB decided it was important to link financial statement discussion and analysis to the financial statements because financial statement discussion and analysis is intended to explain the financial statements, and not to stand alone. The IPSASB considers the term “financial statement discussion and analysis” clearly defines the scope of applicability of this pronouncement and its close linkage to the financial statements.

### Exposure Draft (ED) 47, *Financial Statement Discussion and Analysis*

- BC4. The IPSASB developed Exposure Draft (ED) 47, *Financial Statement Discussion and Analysis* which was issued in March 2012. This ED proposed that entities which prepare and present their financial statements in accordance with IPSASs, should be required to prepare financial statement discussion and analysis in accordance with the ED. This meant that financial statement discussion and analysis would have the same level of authority as accrual based IPSASs even though it related to a general purpose financial report (GPFR).
- BC5. In developing the ED the IPSASB considered that financial statement discussion and analysis provides additional information necessary to meet the objectives of financial statements. Furthermore, the IPSASB considered that the benefits of providing financial statement discussion and analysis would outweigh the costs of preparing it, as the information is used in the

preparation of the financial statements, and tailored to the specific circumstances of the entity. The IPSASB therefore proposed that financial statement discussion and analysis should be prepared by all entities that prepare their financial statements in accordance with IPSASs.

- BC6. IPSAS 1 defines the scope of the financial statements. The IPSASB did not consider financial statement discussion and analysis to be part of the financial statements prepared in accordance with IPSASs despite its close link to the financial statements. The IPSASB did not, therefore, propose to amend IPSAS 1 to include financial statement discussion and analysis as an integral part of the financial statements.
- BC7. Some respondents to the ED raised the concern that entities may have problems with asserting compliance with IPSASs applicable to the financial statements if they do not follow the proposed requirements in the ED. In particular, respondents were concerned that financial statement discussion and analysis might still be considered to be a part of the financial statements even though the ED explicitly stated that financial statement discussion and analysis is not a component of the financial statements. Some of these respondents suggested that this would not be an issue if the ED was developed into non-authoritative guidance, e.g., a Recommended Practice Guideline (RPG).
- BC8. The IPSASB considered whether or not the ED should be developed as an IPSAS or whether it should become an RPG. Respondents to the ED were split on this issue with a slight majority favoring the material not becoming an IPSAS. Of those not in favor of issuing an IPSAS, the majority of respondents expressed a clear view that it should be issued as guidance in similar to the proposed RPG for *Reporting on the Long-Term Sustainability of an Entity's Finances*.
- BC9. The IPSASB also considered this issue in the context of whether or not GPFRs should be capable of being authoritative pronouncements. The IPSASB noted that the scope of its *Conceptual Framework* is not limited to GPFs. Therefore, the *Conceptual Framework* envisages authoritative pronouncements for GPFRs.
- BC10. There were contrasting views among members as to the status of pronouncements relating to GPFRs. Some members consider that if all pronouncements relating to GPFRs, other than GPFs, are non-authoritative it would be a retrograde step. These members consider that financial statement discussion and analysis is an essential component of GPFRs and therefore it should be an authoritative pronouncement because it is critical in helping entities to meet the accountability objective of financial reporting. In particular it enables users to gain an insight into the operations of the entity from the perspective of the entity itself. Moreover, financial statement discussion and analysis is a well-established area of GPFR, therefore it is appropriate that the guidance is authoritative.
- BC11. Other members consider that pronouncements relating to GPFRs should be non-authoritative because there is an issue about the potential impact on the audit report on the GPFs if pronouncements relating to GPFRs are authoritative. Furthermore, financial statement discussion and analysis is an explanation of the financial statements and users are able to get information from the financial statements irrespective of whether the entity prepares a financial statement discussion and analysis, in other words, the financial statements can stand on their own. These members acknowledged that while financial statement discussion and analysis is important for the accountability objective of financial reporting, it is not critical to the fair presentation of the financial statements.

- BC12. On balance the IPSASB decided that at this time the ED should be developed into a RPG. The IPSASB considers that this RPG provides useful guidance for entities and its flexible application would benefit entities in jurisdictions that have local requirements or regulations. It will also promote comparability across entities that present financial statement discussion and analysis. Furthermore, the IPSASB considers that the RPG might encourage entities that are not accustomed to presenting financial statement discussion and analysis to provide users with this information.
- BC13. Because financial statement discussion and analysis helps entities to meet the accountability objective of financial reporting the IPSASB decided that it should review the status of the RPG sometime in the future.

### **Qualitative Characteristics**

- BC14. As a GPFR, the information in financial statement discussion and analysis should possess the qualitative characteristics of financial reporting taking into account the constraints on information included in GPFRs as set out in Chapter 3 of the *Conceptual Framework*. Accordingly, this is reflected in paragraph 17 of the RPG.

### **Forward-Looking Information**

- BC15. The IPSASB considered whether it should recommend that an entity discloses forward-looking information, such as forecasts. However, the IPSASB considered that whether or not forward-looking information can be included in financial statement discussion and analysis will vary depending upon the regulatory environment in which the entity operates. Moreover, the IPSASB considered that there is a potential for confusion if this RPG includes in its scope forward-looking information because RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* provides guidance on reporting long-term prospective financial information. Therefore, the IPSASB decided that the RPG did not need to include recommendations for disclosures relating to forward-looking information.

### **Implementation Guidance and Illustrative Example**

- BC16. ED 47 included Implementation Guidance which included 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.
- BC17. The IPSASB decided that "Section A: Applicability of the Qualitative Characteristics of Financial Statements to Financial Statement Discussion and Analysis" (paragraphs A.IG1–A.IG20) is not necessary because Chapter 3 of the *Conceptual Framework* explains the qualitative characteristics of financial reporting. Accordingly, this section is not included in the RPG.
- BC18. The IPSASB discussed whether "Section B: Examples of Information about the Entity's Financial Statements" (paragraphs B.IG1–B.IG23) and "Section C: Examples of Information about Variances and Trends" (paragraphs C.IG1–C.IG9) should be retained in the RPG. Some respondents to the ED considered that the guidance was too detailed in some areas and not

comprehensive in other areas. The IPSASB understood these concerns and additionally considered that undue emphasis could be placed on this guidance. Therefore, the IPSASB decided not to include these sections in the RPG.

- BC19. ED 47 included an Illustrative Example of a financial statement discussion and analysis of a national government. Some respondents to the ED suggested that an example needed to be developed for an entity that is not a national government. The IPSASB considered this suggestion and the possibility that any illustrative examples would be used as a template, whereas entities preparing financial statement discussion and analysis should focus on the guidance in the RPG. Moreover, the IPSASB observed that best-practice examples are available from other sources. Therefore, the IPSASB decided not to include any illustrative examples in the RPG.

## Comparison of ED 47 and Draft RPG 2, *Financial Statement Discussion and Analysis*—Marked-up

### Objective

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

### Scope

1. ~~An entity that prepares and presents~~ position and financial performance described by the general purpose financial statements ~~(“hereafter referred to as “financial statements”) in accordance with IPSAS 1, *Presentation of Financial Statements*, shall prepare”).~~

### Status and ~~present~~Scope

2. ~~The reporting of~~ financial statement discussion and analysis ~~— in accordance with this RPG represents good practice. An entity preparing and presenting financial statement discussion and analysis is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).~~
3. ~~Financial statement discussion and analysis shall~~ should be presented at least annually and should use the same reporting date as that used for the financial statements.
- 4.4. ~~The reporting boundary for financial statement discussion and analysis should be prepared the same as that used for the~~ same reporting entity that prepares and presents financial statements under the accrual basis of accounting.
- 2.5. ~~This Standard applies only to financial~~ Financial statement discussion and analysis. ~~It does not apply to other information included in public documents should be issued in conjunction with the financial statements.~~
- 3.6. ~~This~~ Standard RPG applies to all public sector entities other than Government Business Enterprises. (GBEs).
2. ~~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.~~

### Requirement for Financial Statement Discussion and Analysis

7. Although this RPG does not apply directly to GBEs, significant items, transactions, and events relating to GBEs that affect the entity's financial statements are within the scope of this RPG.



- 4.8. An entity ~~shall issue the whose~~ financial statement discussion and analysis ~~when it issues financial statements~~ complies with this RPG should make an explicit and unreserved statement of such compliance in its financial statement discussion and analysis. Financial statement discussion and analysis should not be described as complying with this RPG unless it complies with all the requirements of this RPG.
9. ~~IPSAS 1 requires~~ In some jurisdictions, preparation and presentation of financial statements to be prepared at least annually. Some entities may prepare condensed interim financial information. This Standard requires an entity to issue financial statement discussion and analysis in conjunction with a legislative or regulatory requirement, or required by other externally-imposed regulations. Entities are encouraged to disclose information about compliance with any such requirements.
- 5.10. ~~This RPG does not provide guidance on the entity's annual financial statements~~ level of assurance (if any) to which financial statement discussion and analysis should be subjected.

## Definition

- 6.11. The following term is used in this ~~Standard~~ RPG 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~~ RPG with the ~~same meaning as in those meanings specified in International Public Sector Accounting Standards, and are reproduced in the Glossary of Defined Terms published separately.~~

## Qualitative Characteristics

3. ~~Financial statement discussion and analysis shall include information that possesses the qualitative characteristics of general purpose financial reports identified~~ (IPSASs) are set out in Appendix A of IPSAS 1.

## Structure and ~~Content of Financial Statement Discussion and Analysis~~

~~Financial statement discussion and analysis shall be consistent with the financial statements, and based on currently known facts and supportable assumptions.~~

## Identification of Financial Statement Discussion and Analysis

- 7.12. Financial statement discussion and analysis ~~shall~~ should be ~~identified~~ clearly identified, and distinguished from the financial statements and from other information.
- 8.13. 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) Financial statement discussion and analysis prepared in accordance with this RPG; and
  - ~~(b)(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.

## **Compliance with this IPSAS**

- ~~9.14. 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~~ should identify the ~~requirements of this IPSAS~~ financial statements to which it relates.

## **In some jurisdictions, preparation Presenting Financial Statement Discussion and presentation Analysis**

15. Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users to gain an insight into 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 items, transactions, and events affecting the financial performance and position of the entity. Therefore, financial statement discussion and analysis complements the information in the financial statements.
- ~~10.16. Information in financial statement discussion and analysis is required by legislative, regulatory, or other externally imposed regulations. Entities are encouraged to disclose information about compliance with those requirements.~~ should meet the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs).

## **Content of Financial Statement Discussion and Analysis Minimum Required Content**

17. The content of financial statement discussion and analysis should be consistent with the financial statements and the underlying transactions and estimates.
- ~~14.18.~~ To the extent it does not replicate information in the financial statements, financial statement discussion and analysis ~~shall~~ should include, ~~at a minimum~~:
- (a) An overview of the ~~entity~~ entity's operations and the environment in which it operates;
  - (b) Information about the entity's objectives and strategies; ~~that relate to the financial statements;~~
  - (c) An analysis of the entity's financial statements, including ~~variances~~ significant changes and trends; and
  - (d) ~~Information about~~ A description of the entity's principal risk and uncertainties that relate to the financial statements, an explanation of changes in those risks and uncertainties, ~~including~~ since the last reporting date and its ~~risk management strategy~~ strategies for bearing or mitigating those risks and uncertainties.
19. ~~Financial statement discussion and analysis provides useful information to users for accountability and decision-making purposes. 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~~ 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.

4. ~~Where~~ financial statement discussion and analysis includes information that is also in accordance with this Standard. In those cases, the financial ~~statement discussion and analysis should~~ statements it does not merely repeat what is in the financial statements, but ~~it should complement~~ analyzes and ~~supplement~~ explains how items affect the entity's financial performance and position. Financial statement ~~explanations by providing insights and perspectives thereon.~~

12.20. ~~Although~~ discussion and analysis should include cross-references to the specific financial statements where appropriate to avoid duplication of information contained in an entity's financial statement discussion and analysis will vary depending on the facts and circumstances specific to the entity, certain essential elements are important to all financial statement discussion and analysis, as discussed below.

#### Overview of the ~~Entity~~ Entity's Operations and Environment

13.21. ~~An overview of the entity helps users to understand the~~ entity's operations and how the environment in which it operates ~~affect an entity's~~ affects its financial statements. This information ~~is the starting point in assisting~~ assists 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~~ relating to:

- (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); and
- (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 materially 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.
- ~~(a) 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 Objectives and Strategies that Relate to the Financial Statements

14.22. ~~Financial statement discussion and analysis should discuss the entity's objectives and strategies~~ relating to the financial statements 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. Such objectives and strategies relating to the financial statements could include protecting assets, the level of debt and the level of reserves.~~ Financial statement discussion and analysis ~~should also explain~~ explains how ~~the~~ achievement of the entity's financial objectives (e.g., debt reduction strategy) will ~~be measured and over what time period progress would~~ be measured.

15.23. ~~Financial statement discussion and analysis should discuss~~ discusses significant changes in an entity's objectives and strategies from the previous period or periods.

## Analysis of the Entity's Financial Statements

- 16-24. Financial statement discussion and analysis should include an analysis of 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.
- 17-25. ~~describe~~Financial statement discussion and analysis describes the significant items, transactions, and events ~~and activities~~ that have affected the financial statements, without simply reiterating the information presented in ~~those~~the financial statements. ~~A brief discussion of the purpose of, and information provided by, each component~~Judgment is required in identifying 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~~items, transactions, and events occurring after the reporting date.
- 18-26. 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~~reasons for the measure to usersuse of such measures. 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 provided if necessary to accurately and completely present the information.~~
- 19-27. Comparative information should be ~~included~~disclosed in respect of the previous period(s) for amounts presented in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial ~~statements~~statement discussion and analysis.
- 20-28. When an entity is required or elects to make their approved budget(s) publicly available, IPSAS 24, *Presentation of Budget Information in Financial Statements* requires a comparison of budget and actual amounts in the financial statements~~can have a predictive or prospective role. This Standard does not require the.~~ IPSAS 24 also requires an explanation of material differences between the budgeted and actual amounts and permits an entity to disclose ~~forward-looking~~this information, either in the notes to the financial statements or in other public reports 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.~~
- 21-29. Identification of the main events, trends, and factors influencing the current reporting period may provide. When an entity elects to include this 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 in its~~ 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.~~, it applies the guidance in IPSAS 24 to these disclosures.

~~5. 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 budget; and~~

~~(b) The prior year and current year financial statements, by explaining significant changes and highlighting trends.~~

#### **Risks and Uncertainties that Relate to the Financial Statements**

~~22.30. Information about~~Financial statement discussion and analysis should discuss the entity's principal risks and uncertainties that relate to the financial statements and include an explanation of how this relates to the objectives and strategies of the entity. This information helps users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements or the use of foreign currency hedges to mitigate risk) 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. It is noted, however, that these need to be fact-based and take into account currently-known conditions. In addition, underlying assumptions need to be disclosed.~~

~~23.31. Information about~~The description of the entity's principal risks and uncertainties may include a discussion of such matters as a summary of that relate to the entity's investment policyfinancial statements should cover exposures to both negative consequences and other means of managing its potential opportunities. These risks, insurance coverage, and other controls intended to safeguard the entity's assets. It may also include the relevant legislation, regulationuncertainties can constitute significant external or body that sets the risk management policies for internal risks to the entity (e.g., when risks are managed at a government-wide level).

~~24.32.~~ A discussion of how the entity's entity manages its risks and uncertainties that relate to the financial statements helps users obtain a complete picturefaithful 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," in respect of some risks, or to mitigate risk by transferring or sharing it, or through insurance.

~~6. 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.~~

~~25.33.~~ ~~A discussion of the risks the entity faces~~A discussion of the risks and uncertainties that relate to the financial statements 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.

~~26.34.~~ Risks and uncertainties that relate to the financial statements may have a pervasive effect on the financial statements, ~~therefore~~. Therefore, information ~~pertainin~~relating to these risks and uncertainties may be reported separately, or in relevant sections throughout ~~the~~ financial statement discussion and analysis.

## **Transition**

- ~~7. All provisions of this Standard shall be applied from the date of first adoption of this Standard.~~
- ~~8. 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 paragraph 23 from its financial statement discussion and analysis for that period.~~

## **Effective Date**

- ~~9. 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* at the same time.~~
- ~~10. 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.~~

**Side-by-Side Comparison of ED 47 and  
Draft RPG 2, *Financial Statement Discussion and Analysis***

ED 47		Draft RPG 2	
Para No		Para No	
	<b>Objective</b>		<b>Objective</b>
1	The objective of this Standard is to prescribe the manner in which 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 assist users to understand the financial statements.	1	This Recommended Practice Guideline (RPG) provides guidance for preparing and presenting financial statement discussion and analysis. Financial statement discussion and analysis will assist users to understand the financial position and financial performance described by the general purpose financial statements (hereafter referred to as “financial statements”).
	<b>Scope</b>		<b>Status and Scope</b>
2	<b>An entity that prepares and presents general purpose financial statements (“financial statements”) in accordance with IPSAS 1, <i>Presentation of Financial Statements</i>, shall prepare and present financial statement discussion and analysis. Financial statement discussion and analysis shall be prepared for the same reporting entity that prepares and presents financial statements under the accrual basis of accounting.</b>	2	The reporting of financial statement discussion and analysis in accordance with this RPG represents good practice. An entity preparing and presenting financial statement discussion and analysis is encouraged to follow this RPG. Compliance with this RPG is not required in order for an entity to assert that its financial statements comply with International Public Sector Accounting Standards (IPSASs).
		4	The reporting boundary for financial statement discussion and analysis should be the same as that used for the financial statements.
3	This Standard applies only to financial statement discussion and		–

ED 47		Draft RPG 2	
Para No		Para No	
	analysis. It does not apply to other information included in public documents issued in conjunction with the financial statements.		
	–	3	Financial statement discussion and analysis should be presented at least annually and should use the same reporting period as that used for the financial statements.
4	<b>This Standard applies to all public sector entities other than Government Business Enterprises.</b>	6	This RPG applies to all public sector entities other than Government Business Enterprises (GBEs).
5	The <i>Preface to International Public Sector Accounting Standards</i> issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1.		–
	–	7	Although this RPG does not apply directly to GBEs, significant items, transactions, and events relating to GBEs that affect the entity's financial statements are within the scope of this RPG.
	<b>Requirement for Financial Statement Discussion and Analysis</b>		–
6	<b>An entity shall issue the financial statement discussion and analysis when it issues financial statements.</b>	5	Financial statement discussion and analysis should be issued with the financial statements.
7	IPSAS 1 requires financial statements to be prepared at least annually. Some entities may prepare condensed interim financial information. This Standard requires an entity to issue financial discussion and analysis in conjunction with the entity's annual financial statements.		–



ED 47		Draft RPG 2	
Para No		Para No	
	<b>Definition</b>		<b>Definition</b>
8	<p>The following term is used in this Standard with the meaning specified:</p> <p><b><u>Financial statement discussion and analysis</u> 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.</b></p> <p><b>Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the <i>Glossary of Defined Terms</i> published separately.</b></p>	11	<p>The following term is used in this RPG with the meaning specified:</p> <p><u>Financial statement discussion and analysis</u> is an explanation of the significant items, transactions, and events presented in an entity's financial statements and the factors that influenced them.</p> <p>Terms used in this RPG with the meanings specified in International Public Sector Accounting Standards (IPSASs) are set out in Appendix A.</p>
	<b>Qualitative Characteristics</b>		–
9	<p><b>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.</b></p>	16	<p>Information in financial statement discussion and analysis should meet the qualitative characteristics of financial reporting taking into account the constraints on information included in general purpose financial reports (GPFRs).</p>
	<b>Structure and Content of Financial Statement Discussion and Analysis</b>		<b>Content of Financial Statement Discussion and Analysis</b>
10	<p><b>Financial statement discussion and analysis shall be consistent with the financial statements, and based on currently-known facts and supportable assumptions.</b></p>	17	<p>The content of financial statement discussion and analysis should be consistent with the financial statements and the underlying transactions and estimates.</p>
	<b>Identification of Financial Statement Discussion and Analysis</b>		<b>Identification of Financial Statement Discussion and Analysis</b>

ED 47		Draft RPG 2	
Para No		Para No	
11	<b>Financial statement discussion and analysis shall be identified clearly, and distinguished from the financial statements.</b>	12	Financial statement discussion and analysis should be clearly identified, and distinguished from the financial statements and from other information.
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.	13	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; (b) Financial statement discussion and analysis prepared in accordance with this RPG; 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.
	–	14	Financial statement discussion and analysis should identify the financial statements to which it relates.
	<b>Compliance with this IPSAS</b>		–
13	<b>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.</b>	8	An entity whose financial statement discussion and analysis complies with this RPG should make an explicit and unreserved statement of such compliance in its financial statement discussion and analysis. Financial statement discussion and analysis should not be described as complying with this RPG unless it complies with all the requirements of this RPG.
14	In some jurisdictions, preparation and presentation of financial statement discussion and analysis is required by legislative, regulatory, or other externally-imposed regulations. Entities are encouraged to disclose information about compliance with those	9	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

ED 47		Draft RPG 2	
Para No		Para No	
	requirements.		with any such requirements.
	–	10	This RPG does not provide guidance on the level of assurance (if any) to which financial statement discussion and analysis should be subjected.
	<b>Minimum Required Content</b>		–
15	<p><b>To the extent it does not replicate information in the financial statements, financial statement discussion and analysis shall include, at a minimum:</b></p> <ul style="list-style-type: none"> <li>(a) <b>An overview of the entity;</b></li> <li>(b) <b>Information about the entity's objectives and strategies;</b></li> <li>(c) <b>An analysis of the entity's financial statements, including variances and trends; and</b></li> <li>(d) <b>Information about the entity's risks and uncertainties, including its risk management strategy.</b></li> </ul>	18	<p>To the extent it does not replicate information in the financial statements, financial statement discussion and analysis should include:</p> <ul style="list-style-type: none"> <li>(a) An overview of the entity's operations and the environment in which it operates;</li> <li>(b) Information about the entity's objectives and strategies that relate to the financial statements;</li> <li>(c) An analysis of the entity's financial statements including significant changes and trends; and</li> <li>(d) A description of the entity's principal risk and uncertainties that relate to the financial statements, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties.</li> </ul>
16	Financial statement discussion and analysis provides useful information to users for accountability and decision-making purposes. 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,	15	Financial statement discussion and analysis provides information useful to users for accountability and decision-making purposes by enabling users to gain an insight into 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 items, transactions, and events affecting the financial performance and

ED 47		Draft RPG 2	
Para No		Para No	
	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.	20	position of the entity. Therefore, financial statement discussion and analysis complements the information in the financial statements.  Where financial statement discussion and analysis includes information that is also in the financial statements it does not merely repeat what is in the financial statements, but analyzes and explains how items affect the entity's financial performance and position. Financial statement discussion and analysis should include cross-references to the financial statements where appropriate to avoid duplication of information.
17	Although the specific information contained in an entity's financial statement discussion and analysis will vary depending on the facts and circumstances specific to the entity, certain essential elements are important to all financial statement discussion and analysis, as discussed below.	19	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.
	<i>Overview of the Entity</i>		<b>Overview of the Entity's Operations and Environment</b>
18	An overview of the entity helps users to understand the entity and how the environment in which it operates affect 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	21	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 assists 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, relating to:  (a) The entity's mission and vision;  (b) The entity's governance (e.g., legislative or regulatory

ED 47		Draft RPG 2	
Para No		Para No	
	<p>structure, management structure);</p> <p>(c) The entity's relationships with other entities (e.g., funding arrangements);</p> <p>(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 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</p> <p>(e) The entity's main operations, including service delivery methods (e.g., outsourcing, service concession arrangements) and significant changes in them.</p>		<p>structure, management structure);</p> <p>(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); and</p> <p>(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).</p>
	<i>Information about the Entity's Objectives and Strategies</i>		<b>Information about the Entity's Objectives and Strategies that Relate to the Financial Statements</b>
19	Financial statement discussion and analysis should discuss the entity's 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 objectives. Financial statement discussion and analysis should also explain how the achievement of the entity's financial objectives (e.g., debt reduction strategy) will be measured.	22	Financial statement discussion and analysis should discuss the entity's objectives and strategies relating to the financial statements 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. Such objectives and strategies relating to the financial statements could include protecting assets, the level of debt and the level of reserves. Financial statement discussion and analysis also explains how achievement of the entity's objectives would be measured and over what time period progress would be measured.

ED 47		Draft RPG 2	
Para No		Para No	
20	Financial statement discussion and analysis should discuss significant changes in an entity's objectives and strategies from the previous period or periods.	23	Financial statement discussion and analysis discusses significant changes in an entity's objectives and strategies from the previous period or periods.
	<i>Analysis of the Entity's Financial Statements</i>		<b>Analysis of the Entity's Financial Statements</b>
21	Financial statement discussion and analysis should describe the significant events and activities that have affected the financial statements, without simply reiterating the information presented in those financial statements. 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.	25	Financial statement discussion and analysis describes the significant items, transactions, and events that have affected the financial statements, without simply reiterating the information presented in the financial statements. Judgment is required in identifying of the significant items, transactions, and events.
22	If financial performance measures that are not required or defined by IPSASs are included within financial statement discussion and analysis, those measures should be 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 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 provided if necessary to accurately and completely present the information.	26	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 the reasons for the use of such measures. When financial performance measures are derived from the financial statements, those measures are reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs.
23	Comparative information should be included in financial statement discussion and analysis when it is relevant to an understanding of the current period's financial statements.	27	Comparative information should be disclosed in respect of the previous period(s) for amounts presented in financial statement discussion and analysis when it is relevant to an understanding of

ED 47		Draft RPG 2	
Para No		Para No	
			the current period's financial statement discussion and analysis.
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.	24	Financial statement discussion and analysis should include an analysis of 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	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 budget; and (b) The prior year and current year financial statements, by explaining significant changes and highlighting trends.	28	When an entity is required or elects to make their approved budget(s) publicly available, IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> 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 other public reports such as financial statement discussion and analysis. When an entity elects to include this information in its

ED 47		Draft RPG 2	
Para No		Para No	
			financial statement discussion and analysis, it applies the guidance in IPSAS 24 to these disclosures.
	<i>Risks and Uncertainties</i>		<b>Risks and Uncertainties that Relate to the Financial Statements</b>
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. It is noted, however, that these need to be fact-based and take into account currently-known conditions. In addition, underlying assumptions need to be disclosed.	29	Financial statement discussion and analysis should discuss the entity's principal risks and uncertainties that relate to the financial statements and include an explanation of how this relates to the objectives and strategies of the entity. This information helps users to evaluate the impact of those risks in the current period (e.g., contingent liabilities disclosed in the financial statements or the use of foreign currency hedges to mitigate risk) as well as expected outcomes.
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 and other means of managing its risks, insurance coverage, and other controls intended to safeguard the entity's assets. 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).		—
	—	30	The description of the principal risks and uncertainties that relate to the financial statements should cover exposures to both negative consequences and potential opportunities. These risks and uncertainties can constitute significant external or internal



ED 47		Draft RPG 2	
Para No		Para No	
			risks to the entity.
29	A discussion of how the entity's manages its risks helps users obtain a complete picture 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.	31	A discussion of how the entity manages its risks and uncertainties that relate to the financial statements 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" in respect of some risks, 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, <i>Events After the Reporting Date</i> ), 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	A discussion of the risks and uncertainties that relate to the financial statements 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	33	Risks and uncertainties that relate to the financial statements may

ED 47		Draft RPG 2	
Para No		Para No	
	financial statements, therefore information pertaining to risks and uncertainties may be reported separately, or in relevant sections throughout the financial statement discussion and analysis.		have a pervasive effect on the financial statements. Therefore, information relating to these risks and uncertainties may be reported separately, or in relevant sections throughout financial statement discussion and analysis.
	<b>Transition</b>		—
33	<b>All provisions of this Standard shall be applied from the date of first adoption of this Standard.</b>		—
34	<b>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 paragraph 23 from its financial statement discussion and analysis for that period.</b>		—
	<b>Effective Date</b>		—
35	<b>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, <i>Presentation of Budget Information in Financial Statements</i> at the same time.</b>		—
36	When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes subsequent to this		—

Comparison of ED 47 and Draft RPG 2  
*IPSASB Meeting (June 2013)*

ED 47		Draft RPG 2	
Para No		Para No	
	effective date, this Standard applies to the entity's financial statement discussion and analysis covering periods beginning on or after the date of adoption.		