

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

**Meeting Location:** Toronto, Canada

**Meeting Date:** June 17–20, 2013

# Agenda Item 5

For:

☐ Approval

☒ Discussion

☐ Information

## Government Business Enterprises

### Objective(s) of Agenda Item

1. The objective of the session is to consider Agenda Paper 5.

### Material(s) Presented

Agenda Item 5.1	Government Business Enterprises
Agenda Item 5.2	Extract from PSASB Handbook 2000 and PSC Guideline 1

### Action(s) Requested

2. The IPSASB is asked to decide which of options 1, 2, 3 or 4 in Paper 5 should be pursued.

## **GOVERNMENT BUSINESS ENTERPRISES (GBE)**

### **Background/Introduction**

1. At the March 2013 meeting the IPSASB had a brief discussion on the GBEs project, noting that it is in the initial research stages. The project will consider whether the current definition of GBEs is appropriate as well as the subsequent issue of whether GBEs should continue to apply IFRSs in their separate GPFRs. The IPSASB agreed in March that how GBEs should be accounted for within a whole-of-government's financial statements will be addressed in the project to amend IPSAS 6, *Consolidated and Separate Financial Statements*.
2. The results of the survey that staff conducted with IPSASB members in December 2012 on current approaches to identifying and accounting for GBEs indicated there is a broad diversity in terminology in various jurisdictions used to describe government controlled entities which are profit seeking, or full cost recovery entities. In some jurisdictions, regardless of terminology, these entities would meet the IPSASB's definition of a GBE, whereas in others they would not. The survey also identified diversity in practices adopted for accounting for these entities across a number of jurisdictions.
3. Several issues have been raised with respect to GBEs. Some of these are related directly to the definition, while others are more general in nature and are issues regardless of the approach to the definition. This paper explores some of the issues related to the current GBE definition with a view to seeking the IPSASB's guidance on these. Other issues, such as addressing non-financial reporting and differences between accounting and statistical reporting guidelines, will be addressed as part of further work on this project and will be considered at a future meeting.

### **History of the GBE Definition**

4. The current definition set out in IPSAS 1, *Presentation of Financial Statements*, (paragraph 7) defines a GBE as 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 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.
5. At the March 2013 meeting, staff was asked to explore the historical rationale for developing the definition of a GBE as an initial step in addressing concerns with the definition.
6. The definition and explanation of accounting for GBEs was first developed by the Public Sector Committee (PSC), the predecessor to the IPSASB, for inclusion in IPSASs (the definition) and issued as a Guideline (the explanation) in July 1989. This Guideline 1, together with relevant extracts from the Preface of the 2000 IPSASB Handbook is included for information as agenda item 5.2. Staff understands that the rationale underlying the position adopted by the PSC/IPSASB was,

in part, on the basis of a level playing field type argument and also, in part, on efficiency grounds. The level playing field type argument was that private sector business entities and public sector business entities should adopt the same reporting standards for their own financial statements that were business-like and might apply accounting principles and presentation based on local company law and business GAAP. On efficiency grounds, the view taken was that the limited resources of PSC/IPSASB should be focused on developing standards for non-business oriented public sector entities, leaving the IASB to develop standards for entities with business objectives and characteristics.

7. As can be seen from paragraphs 4–10 of Guideline 1, it was contemplated that, to reflect the objectives and operating environment of the public sector that might influence their operations, the scope of financial reporting by GBEs may be broader than just IFRS based financial statements. It was also contemplated that GBEs might report additional information on their financial and nonfinancial performance, including achievement of social policy obligations. It is noted that at that time, whilst there were such business-like entities in existence, there were no standards on consolidation of controlled entities. The requirement to consolidate controlled entities using IPSASs was introduced by IPSAS 6 *Consolidated and Separate Financial Statements*, issued in May 2000.
8. As time has passed a broad variety of controlled entities has developed. The form of entity selected reflects government policy objectives and includes companies, trusts, limited liability partnerships, Special Purposes Vehicles (SPVs) and joint ventures. Governments have also purchased shares in companies for a variety of reasons including interventions during the global financial crisis. As the types of controlled entities have evolved, applying the definition of a GBE has become more challenging in some cases.
9. At the whole-of-government level the financial performance of GBEs can have a significant impact on consolidated financial performance and financial position. The global financial crisis has reinforced the significance of GBEs, particularly public finance corporations and the need for information that better meets the accountability objective of financial reporting.
10. In order to comply with IPSASs all controlled entities, including GBEs, are consolidated on a line by line basis with their accounting policies conforming to IPSASs and, if their policies under IFRS deviate significantly from IPSAS, the consolidation process is more complex. The question of defining GBEs relates primarily to the accounting policies that GBEs should apply for the purposes of their own financial reporting.
11. The Preface to the IPSASB Handbook sets out the current applicability of IPSASs. Paragraph 10 notes that the IPSASs are designed to apply to the general purpose financial reports of all public sector entities other than GBEs. GBEs apply IFRSs issued by the IASB.
12. The scope of this project includes the broader consideration of whether GBEs (however defined) should apply IFRSs (or local country GAAP) rather than IPSASs in their own GPFRs. Staff is of the view that there appears to be a general agreement among IPSASB members that IFRSs continue to be appropriate accounting policies for at least some controlled entities. The purpose of this project is therefore to determine which controlled entities should apply IFRSs and how they should be defined.
13. The IPSASB can only define which entities must use IPSASs. All other entities should use a form of commercial accounting which may be IFRS or local country GAAP. Paragraph 6 above notes the initial rationale for business like entities operating in competitive markets applying IFRSs to provide

a level playing field regardless of who controls them. If some public sector entities have the same objectives, features and characteristics as the entities that IFRSs are developed to apply to, there appears little reason to develop separate IPSASs that apply to them. These entities should just apply IFRSs for their own GPFs and GPFRs. However since 1989 government controlled business activities have increased in number and nature and the term “business-like” may now be interpreted in different ways between jurisdictions. There is a need for clearer universal understanding of the term if consistency is to be achieved. It is acknowledged that ultimately the project may result in different terminology and/or different types of organizations that might fit into this category.

## **Issues with the Current Definition**

14. A number of issues raised with respect to the definition of a GBE indicate some changes to this definition may be necessary. Issues raised in relation to the current definition include a) the inclusion of full cost recovery entities; b) the meaning of “...not being reliant on continued government funding to be a going concern...” and the nature of that funding; c) the clarity in interpreting the definition; d) whether the control criterion is appropriate in determining which entities are GBEs; and e) whether a definition based on services or objectives would be more appropriate?

### **(a) Including Full Cost Recovery Entities**

15. The current definition refers not only to profit seeking entities but also to those whose financial objective is full cost recovery. In addition, while some entities have a profit seeking objective, in practice they are cost recovery so there is a need to consider whether profit seeking is aspirational. It may be questionable whether for full cost recovery entities the requirements of IFRSs are appropriate. As an example, in the area of impairment, IAS 36, *Impairment of Assets*, requires that an entity that does not generate net cash flows would have assets carried at nil. This could potentially be misleading and may not achieve the objectives of financial reporting in the public sector.
16. In order to address these issues the definition of a GBE could be narrowed to exclude full cost recovery entities. Alternatively, since the IPSASB can only define which bodies must use IPSASs the accounting requirements could be modified to apply only to specific categories of GBEs. The project will need to further explore these issues.

### **(b) Not Being Reliant on Continued Government Funding**

17. To meet the definition of a GBE the entity must not be reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length). This has raised questions about the nature of government funding and what was intended in order to preclude controlled entities from being GBEs. For example, a government may provide annual financial support to a controlled profit-oriented entity for services to consumers in rural areas which might not otherwise be provided on a strictly commercial basis. These forms of support are sometimes called “community service obligations”. Some consider that even with the support such controlled entities are GBEs and/or should apply IFRSs. Others do not believe a profit-oriented government entity that is a going concern should apply IFRSs if it receives government funds to support community service obligations.

18. The survey highlighted a wide variety of organizations which are profit-oriented but where the profits on some activities are used to cross subsidize losses on others. Examples include transportation, airlines, and postal services. The overall result for some profit-oriented entities is a profit that may be paid out in the form of dividend or retained for reinvestment. For other such entities government funding may be needed from time to time where an overall loss arises or there is a need for an injection of additional funds for investment. There is therefore a need to judge whether the extent of cross subsidization or the need for ongoing investment means that, in reality the entity is not really a profit-oriented entity, and judgments can differ.

**(c) Clarity in Interpreting the Definition**

19. One of the issues identified from the survey is that jurisdictions are applying the definition differently. Notwithstanding the terminology in use, not all meet the IPSASB's definition of a GBE. The types of entities identified as GBEs that should apply IFRSs are diverse and range from profit-oriented trading businesses such as utilities to those which are, or aspire to be, full cost recovery entities with different levels of government subsidy. It is unclear whether this diversity in application stems from a lack of clarity in the definition, from long-standing national legislation which requires an entity to use local country GAAP or another basis, or from the diversity of business like entities controlled by government which have grown over the years.
20. The disparity in applying the current definition of GBEs means that there is a lack of comparability between jurisdictions. This is an issue that needs to be considered.

**(d) Whether Control Criterion is Appropriate?**

21. In preliminary discussions of the project, it was noted that one of the criterion of the current definition of a GBE is that "it is controlled by a public sector entity". While consideration of control and how that should be determined in the public sector is part of the current review of IPSASs 6–8, members have noted that the definition of GBEs is only intended to be applied to controlled entities. In other words, many feel that this criterion is redundant and should not be part of the definition. Any work on addressing the definition should consider whether this criterion is needed, and, if the control condition is removed, what the consequences might be, and which of these consequences may require to be protected against.

**(e) Definition Based on Services or Objectives more Appropriate?**

22. At the March 2013 meeting one member expressed the view that the existing definition is transaction based. The member wondered whether a definition built on a services or objectives basis would be more appropriate. It was also highlighted that some entities might have both service and profit goals. One way to approach this is to consider the entity's primary objective and define a GBE as a governmental entity whose primary objective is to provide goods and services to the community at a profit and to generate a financial return to government. Such a return may be used by government for other purposes. An example of this is the Liquor Control Board of Ontario (LCBO) in Canada whose profit on sales of alcohol is returned in the form of an annual dividend to government for use in funding health and education. There may however be other ways of approaching a definition based on services or objectives.

## **Types of Controlled Entities**

23. Given that this project will determine which controlled entities should apply IFRSs and how they should be defined, it may be helpful to consider the broad spectrum of controlled entities within individual jurisdictions and the characteristics of those organizations. At one end of the spectrum are government controlled entities which are clearly profit-oriented trading businesses, such as utilities which seek to make a commercial return, and pay regular dividends to shareholders. These businesses would not normally receive any form of financial support from government. Controlled entities in this category would generally sell goods and services at a profit and be self-sustaining i.e. not reliant on government funding to be a going concern.
24. Based on the IPSASB's discussions in March, staff believes there is a general consensus that these types of entities should apply IFRS for preparation of their own financial statements. Applying IFRSs, which are developed for profit-oriented enterprises, makes sense since these types of entities are most closely aligned to profit-oriented enterprises in the private sector.
25. At the other end of the spectrum are controlled entities which clearly exist to provide public services using only funds provided by government. Such entities are not profit-oriented and do not seek to make a commercial return or pay dividends to shareholders. They are not self-sustaining i.e. they are reliant on government funding. An example might be a government department operating as a separate entity to carry out a service supplying goods and services either free of charge or priced to achieve a partial cost recovery. Such entities would not meet the current definition of a GBE and, at least for the purposes of this project, to the extent these entities are reporting entities they would apply IPSASs not IFRSs.
26. Between these two ends of the spectrum is a gray area that includes a number of other types of controlled entities that are more difficult to assess. For example, there are entities that are similar to profit-oriented trading businesses in that they sell goods and services and are not reliant on government funding to be a going concern but differ because they do not earn a profit and rather operate on a full cost recovery basis.
27. Other entities generate a sizeable amount of revenue from providing services such as research at market prices but fall short of full recovery either every year or only in some years. Some entities may seek to be full cost recovery entities but may receive different levels of government funding to make up any shortfall. Another type of entity may have partly commercial, partly community benefit objectives such as a transportation service where carrying freight is profit seeking whilst some passengers, particularly those living in rural areas, are transported at low fares or free of charge. Governments may decide to provide specific subsidies for rural or low income consumers or task the organization to seek to achieve an overall breakeven result after differential tariffs and only provide a deficit funding grant if required.

## **What are the Options?**

28. In considering the issues related to defining GBEs, staff is of the view that there are four options that are feasible in approaching the project. These are:
  - (a) Do not specifically define GBEs ;
  - (b) Clarify the existing definition so that it is easier to apply;
  - (c) Narrow the existing definition of GBEs; or

- (d) Redefine GBEs using a different approach e.g. based on services or objectives.

**Option 1: Do not Define GBEs**

29. At the March meeting one member raised the question of whether there was a need for the IPSASB to continue to define GBEs and requested this as an option staff should explore. The IASB prescribes that IFRSs are intended for “profit-oriented entities”, particularly those in the capital market. It is noted that the IASB does not define “profit-oriented entities”. It is reasonable to infer that the IFRSs apply to entities that are in pursuit of profit, regardless of whether they earn a profit in any given reporting period. Without a definition, there could be different interpretations of what “profit-oriented” means. The effect of not defining “profit-oriented entities” is that an entity can apply IFRSs if it deems them appropriate. While there could therefore be differences within and between jurisdictions as to which entities apply IFRSs in the private sector, for the most part there are not differences in the characteristics of entities that are identified by regulators in each jurisdiction as a) profit-oriented entities and required to apply IFRSs and b) not-for-profit entities and required to apply other standards.
30. Taking the lead from the IASB’s approach (which states that IFRSs are designed for profit oriented entities and, although IFRSs are not designed to apply to not-for-profit activities in the private sector, public sector or government, entities with such activities may find them appropriate for not for profit entities), one approach the IPSASB could consider is not to have a definition of a GBE. This would mean, similar to the IASB, the IPSASB could describe the types of entities its standards are intended to apply to. The IPSASB’s mission states that it develops standards for “public sector entities”. In the draft Conceptual Framework, Para 4 of the draft Preface <sup>1</sup> states “the primary objective of most public sector entities is to deliver services to the public, rather than to make profits and generate a rate of return to investors.”
31. Although the IPSASB can only define which entities must use IPSASs, it could be further stated that profit-oriented entities would be expected to apply IFRSs in their separate financial statements, thereby linking this to the IASB’s wording.
32. Under this approach, the IPSASs would apply to public sector entities other than profit oriented public sector entities and the IPSASB would leave it to individual jurisdictions to assess which of their controlled entities should apply IFRSs for the purposes of their own financial reporting.
33. On one hand, allowing jurisdictions to make their own decisions on which of their controlled entities are profit-oriented, and therefore should apply IFRSs, is somewhat appealing in its simplicity. It leaves it to individual jurisdictions to assess which entities they consider should apply IFRSs. Therefore the IPSASB would avoid the difficulties of determining a definition of a GBE that is suitable globally.
34. Since this approach is somewhat analogous with the IASB’s approach for profit-oriented enterprises it arguably has some precedent. It could be argued that individual jurisdictions rather than the IPSASB know best what the most appropriate accounting policies are for the purposes of the controlled entities’ financial reporting. This approach therefore allows jurisdictions to tailor requirements for their circumstances. There are drawbacks to this approach which might for example become important when the IPSASs require information on matters such as service

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<sup>1</sup> The Conceptual Framework for General purpose Financial Reporting by Public Sector Entities (draft March 2013)

performance reporting. On consolidation, the accounting policies of all controlled entities would continue to be conformed to IPSASs so comparability between jurisdictions at the whole of government level would exist.

35. The main problem with not defining for the entity's separate financial statements which controlled entities should apply IFRSs is likely to be a lack of consistency and comparability between reporting entities in various jurisdictions. One jurisdiction may make a decision to apply IFRSs to an entity with certain characteristics while another jurisdiction may make an assessment that IPSASs are more appropriate for an entity with similar characteristics. This potential for diversity in practice could make comparisons between jurisdictions problematic. Even within jurisdictions there could be differences in interpretations, for example how might full (or part) cost recovery entities owned, or partly owned by government be accounted for? Many would argue that in a global environment it would be preferable to be able to compare controlled entities with similar characteristics. Some argue that if it is clearly appropriate that certain controlled entities apply IFRSs, then defining the characteristics of those entities in the standards is necessary.
36. Others would argue that not defining GBEs resolves all of the issues outlined because individual jurisdictions would determine the approach they consider the most appropriate. On the other hand this arguably creates different issues as there would be a lack of comparability in practice.

## **Option 2: Clarify the Existing Definition**

37. The current broad diversity in terminology and practices in various jurisdictions may indicate differing interpretations of the current definition. There may therefore be merit in clarifying the existing definition so that it is easier to apply in order to achieve greater consistency. This option presumes that there is a general agreement with the types of controlled entities that the current definition is intended to capture, i.e., profit-oriented and full cost recovery (with no reliance on continuing government funding).
38. One of the issues relating to the current definition is the reference to profit or full cost recovery. Full cost recovery appears to be open to different interpretation between jurisdictions. Paragraph 15 questioned whether full cost recovery should be included at all and paragraph 16 noted that they could be deleted. If that option was adopted it would resolve the uncertainty addressed here, but different interpretations of profit seeking, profit-oriented or other terms would remain. In some situations it means achieving a break-even result after using the profit on some trading activities to offset losses on other activities. Others interpret full cost recovery as achieving a break-even result after receipt of government subsidy either at a level set in advance or to eliminate what would otherwise be a loss. In other cases a government subsidy is provided for specific services, leaving the entity to otherwise achieve a break-even result. It is highlighted that currently this criterion is intended to preclude reliance on continuing government funding.
39. The survey highlighted that the phrase "continued government funding" was also open to different interpretation. In some jurisdictions governments provide loans to entities below commercial rates of return and/or provide guarantees to funders to enable borrowing for investment or working capital. Other forms of government funding range from loans for initial funding to periodic loans for the purchase of assets and/or to increase the entity's scale of activity.
40. In order to clarify the existing definition the main areas to address would be to clarify the IPSASB's intention of what full cost recovery means as well as clarifying whether not being reliant on



government funding precludes receiving any government assistance and, if so, what is the nature of assistance that would allow this criterion to be met.

41. If the IPSASB decided to clarify the existing definition this could address the issue of the diversity in current practice. Whether the control criterion is needed would need to be considered as part of this approach. This option does not address the fact that some argue that IFRSs are not appropriate for full cost recovery entities. It also does not envision amending the definition based on services or objectives rather than transactions.

### **Option 3: Narrow the Existing Definition**

42. The third option of narrowing the existing definition would seek to reduce diversity in terminology and practice by having fewer types of controlled entities meet the definition of a GBE. Those organizations which currently report under IFRSs (or local country private sector GAAP) do so for a number of reasons. Some do so because they believe IFRSs are more suitable to a trading entity. Some do so because they wish to use non-government funding and either believe that lenders/prospective lenders prefer IFRSs, or are specifically required to do so by lenders. In other cases they may be required by government to apply IFRSs for specified reasons such as to facilitate privatization or other form of sale at a future date. They may also apply IFRSs because, as GBEs, they believe they are required to do so.
43. The definition of GBEs could be narrowed to include only profit-oriented businesses which do not receive any form of government support (other than purchases of outputs at arm's length). There is general agreement that IFRSs are appropriate for these types of controlled entities and this would arguably be less open to different interpretations. This approach would eliminate entities whose objectives were only to achieve full cost recovery from the definition. Such entities would apply IPSASs, which some argue is more appropriate than standards developed for profit-oriented enterprises. The issue of reliance on government funding would be addressed, since no continuing government funding of any type would be envisioned. It is likely that there would be less diversity in practice since it is likely that fewer controlled entities would meet this definition. The need for control criterion in the definition would still have to be addressed. If this option were to be pursued it would be important to ensure consistency with the IPSASB's objectives of financial reporting and respond to the needs of users as identified in the IPSASB Framework.

### **Option 4: Redefine GBEs using a Different Approach e.g. based on Services or Objectives**

44. The final option staff has identified was raised at the March meeting. Specifically, it was proposed that if there is a desire to identify a group of controlled entities for which IFRSs are appropriate, consideration should be given to approaching the definition from a different perspective. Members discussed approaching the definition from the viewpoint of whether focusing on the services or objectives of the controlled entities would be a better way of defining GBEs.
45. This approach is much more fundamental than the other options since it starts fresh in defining GBEs. On that basis there would be an opportunity to address all of the current issues related to the definition.
46. If this approach was adopted, the entities that would meet the definition of a GBE would be only those that are truly profit driven, regardless of the nature of services or other objectives. This would mean for example that services which provide social services or receive government subsidies for some activities would not be GBEs.

47. This approach is likely to be more resource intensive than the other approaches. In addition, this approach could require a consultation paper whereas the other three options could likely progress immediately to exposure draft. There is also an inherent risk that a completely new definition of a GBE could bring new problems. Lastly, while problems have been identified with the current definition, some argue that they are not so fundamental as to warrant a fresh start approach, particularly in times of resource constraints and other pressing priorities of the IPSASB.

### **Summary**

48. Given the early stage of this project, staff considers that the IPSASB should consider the broad range of issues related to the definition of a GBE. This needs to include a discussion of the types of controlled entities for which IFRSs are generally agreed to be appropriate and the characteristics of such entities.
49. This discussion also needs to consider whether the IPSASB wants to continue to define GBEs thereby scoping out a specific group of controlled entities that should apply IFRSs. If the IPSASB considers that a definition is needed then further consideration should be given to whether the current definition is adequate with some additional clarification or whether a more fundamental change to the definition is warranted.

<b>Matter(s) for Consideration</b>
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| 1. The IPSASB is asked to decide which of options 1, 2, 3 or 4 should be pursued? |
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From IPSASB Handbook 2000.

## **From the Introduction to IPSASs**

### ***Guidelines***

International Public Sector Guidelines recommend practices to be followed in the public sector on financial reporting, accounting and auditing. In order to assist IFAC member bodies in the implementation of International Public Sector Guidelines, PSC will, with the support of the Board, seek to promote their acceptance by national standard-setting authorities.

### **From IPSAS 1**

5. Government Business Enterprises (GBEs) are required to comply with International Accounting Standards (IASs) issued by the International Accounting Standards Committee. The Public Sector Committee's Guideline No. 1 Financial Reporting by Government Business Enterprises notes that IASs are relevant to all business enterprises, regardless of whether they are in the private or public sector. Accordingly, Guideline No. 1 recommends that GBEs should present financial statements that conform, in all material respects, to IASs.

6. *The following terms are used in this Standard with the meanings specified:*

.....

**Government Business Enterprise** means 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.*

### **Government Business Enterprises**

11. Government Business Enterprises (GBEs) include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. International Public Sector Accounting Standard IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.

*Note: Paras 5, 6 and 11 were repeated in the other IPSASs*

**PSC Guideline 1****1****July 1989****Financial Reporting by Government Business Enterprises****CONTENTS**


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	Paragraphs
Introduction .....	1-3
Government Business Enterprises .....	4-7
Requirements for Financial Statements .....	8-10

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**Introduction**

1. The Introduction to the Public Sector Committee states that Public Sector Committee (PSC) pronouncements are aimed at developing and harmonizing public sector financial reporting and accounting practices. Where appropriate, the PSC will consider and make use of pronouncements issued by the International Accounting Standards Committee (IASC) to the extent they are applicable to the public sector. International Accounting Standards (IASs), as well as International Public Sector Guidelines, are not intended to, and do, not override authoritative national standards issued by governments, regulatory or professional accounting bodies.
2. The purpose of this Guideline is to specify the accounting standards that should be used in the preparation and presentation of the published financial statements of government business enterprises.
3. The term 'government' refers to national governments, regional (e.g., state, provincial, territorial) governments and local (e.g., city, town) governments.

**Government Business Enterprises**

4. The Guideline is designed to include such government business enterprises as national railways, energy utilities, and communication services. It does not exclude less commercial activities. The characteristics which government business enterprises usually possess are set out in paragraphs 5, 6 and 7.
5. Government business enterprises are businesses which operate within the public sector ordinarily to meet a political or social interest objective. They are normally required to operate commercially, that is to make profits or to recoup, through user charges, a substantial proportion of their operating costs.

6. In many countries, the public sector includes business enterprises that are owned or controlled by government. The principal activity of these government business enterprises is similar to that of private sector business enterprises, that is to sell goods or services to individuals and nongovernment organizations as well as other public sector entities. All government business enterprises have the financial and operating authority to carry on business, usually including the power to contract in their own name, and some are able to raise finance from nongovernment sources.
7. Government business enterprises usually take the same legal form as private sector business enterprises. In some countries, however, government business enterprises may be subject to specific legislation; as a result, they may have a legal form different from business enterprises in the private sector.

**Requirements for Financial Statements**

8. Government business enterprises issue financial statements to legislators and government departments, outside investors, employees, lenders, the public and other users. When such financial statements are issued, they should be presented in accordance with accounting principles, accounting standards and other requirements that are generally accepted for other business enterprises.
9. Financial statements provide information on financial performance and financial position. The IASC has developed standards for business enterprises relevant to reporting financial performance and position. Since these concepts apply to government business enterprises, the enterprises should present financial statements that conform, in all material respects, with IASs and comply with the appropriate national accounting standards and requirements applicable to other business enterprises.
10. Observance of the above requirements represents a minimum level of reporting necessary to provide adequate information to users. Circumstances in which it may be appropriate to report additional information would include:
  - When there are additional requirements for published financial statements mandated by governments, government business enterprises should also report in accordance with such requirements.
  - When government business enterprises operate to a financial target which is set on a basis other than the historical cost model, government business enterprises should also prepare financial statements on this other basis so as to provide information on financial performance in relation to targets.
  - In the case of government business enterprises operating in a non-competitive or monopolistic environment, financial results alone may be an inadequate measure of performance; thus, it may be appropriate to provide information on productivity/efficiency as additional performance measures.
  - When government business enterprises have nonfinancial or social objectives which conflict with their commercial objectives, it may be appropriate for them to report on the extent to which they have achieved these other objectives and the impact on financial performance.