

PRESENTATION OF FINANCIAL STATEMENTS

IPSASB Meeting – December 2023
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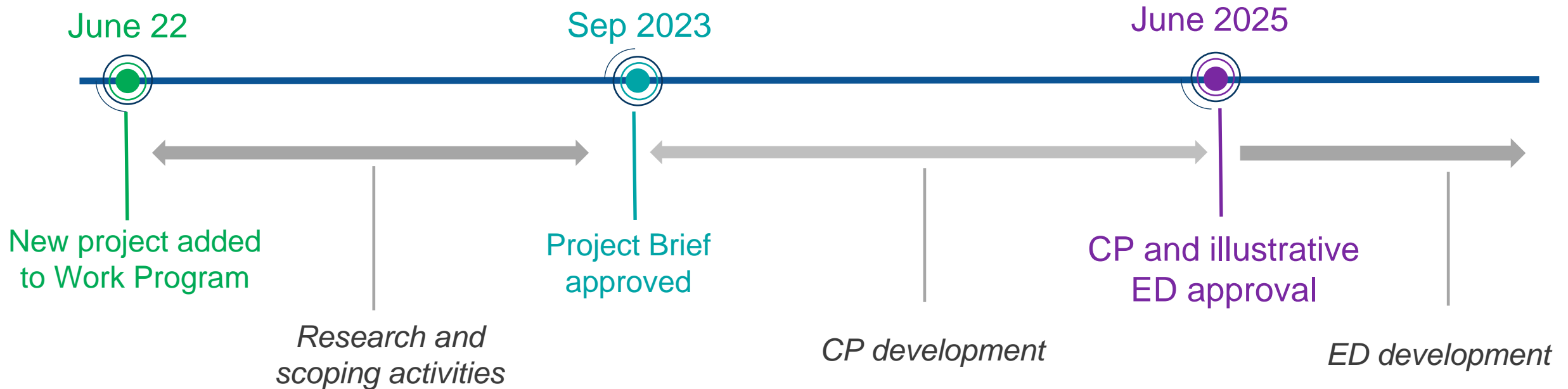
Toronto, Canada



AGENDA

- 1. Introduction**
- 2. Permitting different presentation approaches**
- 3. Board feedback on draft CP Chapters 1 and 2**
- 4. Breakout session discussion**

Project timeline



Permitting different presentation approaches

Analysis

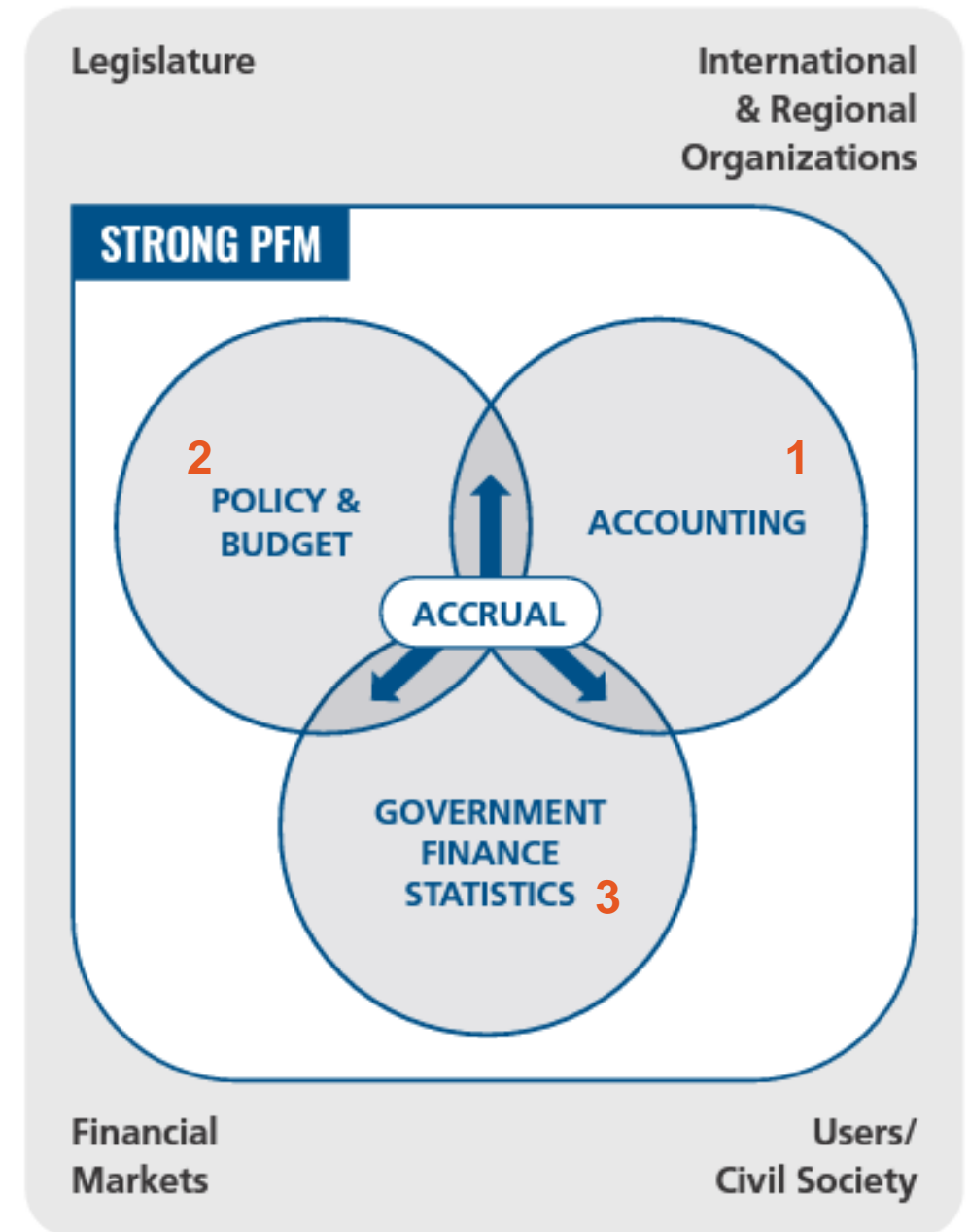
- Exploring the concept of allowing for **financial statement presentation options** in a new IPSAS to replace IPSAS 1
- Increased flexibility to present information in a format based on **local jurisdiction considerations**
- Recognition, measurement, and minimum disclosure requirements **will be consistent** under the different presentation approaches

Recommendation

- To explore in the CP the concept of providing optional presentation approaches in IPSAS.
- The CP would include illustrative examples of the different presentation approaches/formats.

Permitting different presentation approaches

- Supporting increased integration of accrual-based information in financial statements (1) with other reports used for PFM purposes
- Encouraging greater use of accrual-based information for (2) budgeting, and (3) GFS reporting purposes
- Consistency in presentation formats will support increased:
 - Data quality
 - Understanding
 - Use of information



Permitting different presentation approaches

Presentation of financial statements:

- The structure of the financial statements
- Where information is located
- Categorization of information
- Use of headings and sub-totals
- Extent of aggregation and disaggregation
- Terminology



Permitting different presentation approaches

What such an approach could look like

- IPSAS would provide different formats for presenting the financial statements
- In addition to the 'general' presentation approach, IPSAS would also provide three optional approaches:
 1. IFRS-aligned
 2. GFS-aligned
 3. Budget-aligned

Decision based on:

- National jurisdiction's PFM framework
- Consideration of domestic user needs
- Accounting policy choices
- Nature of transactions and arrangements

Permitting different presentation approaches

Benefits

- Facilitate greater integration with PFM reporting frameworks
- Improved linkages and simplification of reconciliation between other PFM reports
- Use of common language and descriptions between PFM reports – will lead to increased understanding and communication effectiveness

Potential downside

- Potential to weaken international comparability of public sector financial statements

Permitting different presentation approaches

Question

Does the IPSASB agree to include in the Consultation Paper a discussion on permitting different presentation approaches?

Does the Board agree with the potential benefits and/or downsides of such an approach as discussed in the paper?

Draft Consultation Paper – Chapter 1: Project Overview

Key points

- The Project aims to improve the communication effectiveness of information in financial statements by enhancing the existing provisions in IPSAS 1
- The scope of the Project is focused on the development of a new Standard to replace IPSAS 1, including consequential amendments to other related standards.
- The Project will provide a foundation from which future projects on related topics may be considered

Recommendation

To provide feedback on Chapter 1 of the draft CP (Agenda Item 9.3.1)

Draft Consultation Paper – Chapter 1: Project Overview

Question

Does Chapter 1 appropriately reflect the objectives, key drivers, scope, and reasons for conducting the project?

Chapter 1 sections:

- Introduction
- Why is the project being undertaken?
- What is the objective of this project?
- What are the key drivers for this project?
- What is the scope of this project?
- How will this project be developed?

Appendices

Appendix A – Further background on reasons for conducting the project

Appendix B – Further background on scope considerations

Appendix C – Consideration of other reporting developments

Draft Consultation Paper – Chapter 2: Purpose of financial statements

Key points

- The draft Chapter seeks to confirm the existing understanding of the *Purpose of Financial Statements* and to consider whether any further guidance is needed at the standards-level.
- The *Purpose of Financial Statements* is often the first principle addressed by international and national standards on the presentation of financial statements.

Recommendation

To provide feedback on Chapter 2 of the draft CP (Agenda Item 9.3.1)

Draft Consultation Paper – Chapter 2: Purpose of Financial Statements

Question

Does the IPSASB agree with how the *Purpose of Financial Statements* has been explained in Chapter 2 of the draft CP?

Chapter 2 sections

- Objectives of financial reporting
- The role of financial statements
- Users of financial statements
- Information needs of financial statement users
- The purpose of financial statements within the broader PFM context
- Proposed enhancements to IPSAS 1 – describing the ‘purpose of financial statements’

PRESENTATION OF FINANCIAL STATEMENTS

BREAK-OUT SESSION DISCUSSIONS

Breakout session discussion

Seeking preliminary views on the public sector context for two areas considered as part of the IASB *Primary Financial Statement* project.

Improving the reporting and communication of financial performance

Categories and sub-totals in performance statements

Management-defined performance measures

Both address similar conceptual questions:

- How should financial performance be measured and reported?
- What measures of financial performance should be included in general purpose financial statements?

Breakout session discussion

Questions

- (a) Is the IASB development applicable to the development of public sector accounting standards?
- (b) To what extent would modifications to the IASB requirements be needed to reflect the public sector context?

Response to presentation issues:

- Provide **general principles** to promote improvements in presentation;
- Provide **presentation options**; or
- Establish **mandatory** presentation **requirements**
- Develop **guidance material**



Based on:

- Promoting **transparency** and **accountability**
- Responding to **user needs**
- Importance of **comparability**
- Allowing **flexibility** for an entity to tell its story
- **Cost/benefit** considerations

Topic #1: Categories and sub-totals in performance statements

The IASB is proposing new requirements to improve the consistency of the structure for presenting items of revenue and expense in the Statement of Profit or Loss.

Three main categories of revenue and expenditure:

- Operating
- Investing
- Financing

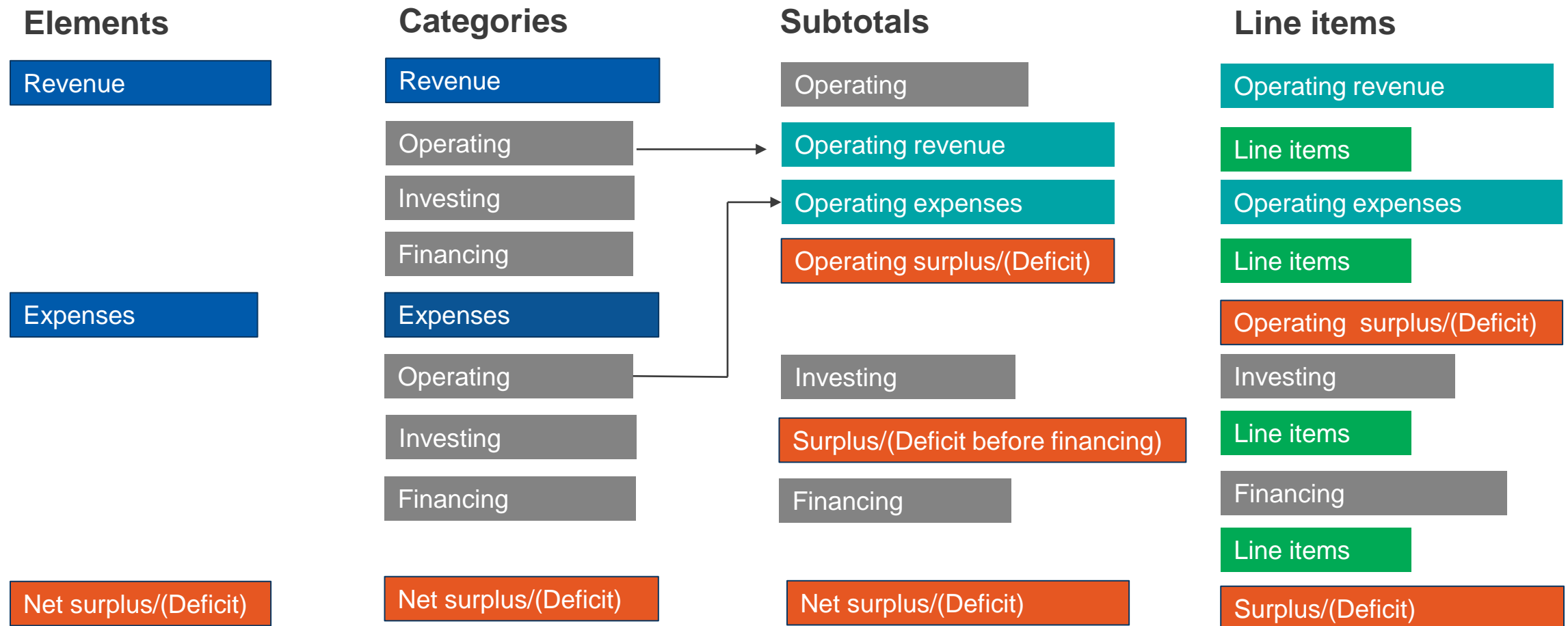


Four sub-totals for reporting performance

- Operating profit/loss
- Profit/loss before financing
- Profit or loss for the year
- Total comprehensive income

Categories and sub-totals in performance statements

Components of Statement of Financial Performance



Categories and sub-totals in the performance statements

| IPSAS 1 |
|---|
| Statement of Financial Performance |
| Revenue |
| <i>Line items (by class)</i> |
| Total revenue |
| Expenses |
| <i>Line items (by nature or function)</i> |
| <i>Mandatory line items</i> |
| Impairment losses (and reversals) |
| Finance costs |
| Total expenses |
| Share of profit/loss from associate |
| Surplus/(deficit) for year |

| |
|---|
| Statement of Changes in Net Assets |
| Recognized directly in equity |
| Certain remeasurement gains and losses |

| PSAB Canada - PS 1202 |
|--|
| Statement of Operations |
| Revenues |
| <i>Line items (by type)</i> |
| Total revenue |
| Expenses |
| <i>Line items (by function or program)</i> |
| <i>Mandatory line items</i> |
| Interest expense (if not allocated to program) |
| Total expenses |
| Surplus/(deficit) |

| |
|---|
| Statement of Changes in Net Assets |
| Recognized directly in equity |
| Certain remeasurement gains and losses |

| IFRS 18 (ED) |
|--|
| Statement of Comprehensive Income |
| Operating revenue |
| <i>Line items</i> |
| Total operating revenue |
| Operating expenses |
| <i>Line items</i> |
| Total operating expenses |
| Operating profit |
| Investing |
| Interest income |
| Dividends income |
| Impairment losses (and reversals) |
| Share of profit from associate and joint venture |
| Profit before financing |
| Financing |
| Interest expense |
| Profit/(loss) for year |
| Other comprehensive income |
| <i>Line items</i> |
| Certain remeasurement gains and losses |
| Total comprehensive income |

Use of categories and sub-totals in practice

| Statement of Financial Performance (or equivalent) | Sample of central government financial statements | | | | | | | | | | | |
|--|---|--------------|---|---|--------|---|---|-----------|---|---|--------|---|
| | IPSAS | Asia/Pacific | | | Europe | | | America's | | | Africa | |
| | | 1 | 2 | 3 | 1 | 2 | 3 | 1 | 2 | 3 | 1 | 2 |
| Revenue | | | | | | | | | | | | |
| Revenue sub-classifications | | | | | | | | | | | | |
| Revenue | | | | | | | | | | | | |
| Additional sub-classifications | | | | | | | | | | | | |
| Expenses | | | | | | | | | | | | |
| Expenses sub-classification | | | | | | | | | | | | |
| Additional sub-classification | | | | | | | | | | | | |
| Operating surplus/(deficit) | | | | | | | | | | | | |
| Operating surplus/(deficit) | | | | | | | | | | | | |
| Financial activities | | | | | | | | | | | | |
| Financial activities | | | | | | | | | | | | |
| Surplus/(deficits) interests in other entities | | | | | | | | | | | | |
| Surplus/(deficits) interests in other entities | | | | | | | | | | | | |
| Other balances excluded from operating (other flows) | | | | | | | | | | | | |
| Other balances excluded from operating (other flows) | | | | | | | | | | | | |
| Surplus/(deficit) for the year | | | | | | | | | | | | |
| Surplus/(deficit) for the year | | | | | | | | | | | | |
| Surplus/(deficit) for the year | | | | | | | | | | | | |
| Other comprehensive income | | | | | | | | | | | | |
| Other comprehensive income | | | | | | | | | | | | |
| Other comprehensive income | | | | | | | | | | | | |
| Total comprehensive result | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Net acquisition of non-financial assets | | | | | | | | | | | | |
| Net acquisition of non-financial assets | | | | | | | | | | | | |
| Net acquisition of non-financial assets | | | | | | | | | | | | |
| Fiscal balance (Net lending/borrowing) | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Statement of Net Assets/Equity | | | | | | | | | | | | |
| Non-owner changes in equity | | | | | | | | | | | | |
| Non-owner changes in equity | | | | | | | | | | | | |
| Non-owner changes in equity | | | | | | | | | | | | |
| Gains/losses as permitted by IPSAS | | | | | | | | | | | | |

Items excluded from operating profit/(deficit) sub-total

Examples in practice:

Re-measurement of assets and liabilities

- Revaluation of assets and liabilities
- Depreciation and amortization
- Impairment losses (and reversals)
- Unrealized gains/losses on financial instruments

Investing and financing activities

- Interest income
- Interest expense
- Discounting of long-term liabilities

Other flows

- Realized gains/losses on financial instruments
- Gains/loss from sale of non-financial assets

Other

- Foreign exchange gains/losses
- Net actuarial losses
- Capital expenditure/transfers
- Unusual/extraordinary items

Categories and sub-totals in performance statements

Questions you may wish to consider:

- Should the IPSASB propose similar requirements for the categorization of revenue and expenses?
- Any preliminary views on a categorization approach to reflect the public sector context?
- Should the IPSASB seek to define and mandate the presentation of additional sub-total balances on the Statement of Financial Performance?

Topic # 2: Management-defined performance measures

The IASB is proposing new requirements for the disclosure of management-defined performance measures in financial statements.

Management-defined performance measures

Subtotals of income and expenses, other than subtotals specified by IFRS, that an entity has:

- (a) Used in public communications outside financial statements; and
- (b) Used to communicate management's view of the entity's financial performance.

Disclosure requirements

- Disclose information about management performance measures in a single note to the financial statements.
- Reconciliation to the most comparable subtotal specified by IFRS Standards

Examples of non-IPSAS performance measures

| Non-IPSAS performance measures | Broad basis for measure |
|---|---|
| Operating surplus/(deficit) | Surplus/deficit excluding certain items |
| Surplus/(deficit) from delivery of core government programs | May exclude certain items of expenditure reported in the Statement Financial Performance |
| Surplus/(deficit) balance before gains and losses | Surplus/deficit less gains/(loss) on financial and non-financial instruments |
| Surplus/(deficit) before extraordinary items | Excludes certain items of income and expenditure outside the government 'ordinary' activities |
| Fiscal balance | Surplus/deficit less net capital investment |
| Primary balance | Fiscal balance without accounting for interest payments on debt. |
| Net debt | Total liabilities minus financial assets |
| Debt break | A fiscal rule that sets a limit on the annual growth rate of government spending. |

Management-defined performance measures

Questions you may wish to consider:

- Should the IPSASB develop similar requirements for the disclosure of information in the financial statements about non-IPSAS-based measures used in public communications?
- What types of non-IPSAS performance measures would be useful to disclose in public sector financial statements?