

PRESENTATION OF FINANCIAL STATEMENTS

IPSASB Meeting – March 2024

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New York City, USA



AGENDA

1. Introduction
2. General presentation requirements
3. Breakout session discussion

Project overview

The **objective** of the Project is to develop a new IPSAS to replace IPSAS 1 and to improve the requirements concerning how information is presented in general-purpose financial statements.

Presentation is focused on the selection, location, and organization of the information reported in general purpose financial statements.

Project drivers

- Consistency with the IPSASB Conceptual Framework;
- Alignment with IFRS (to the extent appropriate for the public sector);
- Reducing to the extent possible unnecessary differences with GFS; and
- Addressing any public sector-specific issues

Key topics

- General presentation principles
- Structure of financial statements
- Categorization of information
- Aggregation and disaggregation
- Additional sub-totals
- Mandatory line items
- Management-defined performance measures

Project Management

Overall Project Management	Mar 2024	Jun 2024	Sept 2024	Dec 2024	Mar 2025	Jun 2025
Discussion of issues						
General presentation requirements						
Statement of Financial Position						
Statement of Financial Performance						
Other Comprehensive Revenue and Expense						
Statement of Changes in Net Assets/Equity						
Notes to the financial statements						
Application guidance						
Illustrative examples						
Review and approval of CP and Illustrative ED						
Draft CP and Illustrative ED						

Supported by:

- Review of draft sections of CP and illustrative ED by Task Force
- Engagement with focus groups (including CAG) to receive preliminary feedback

Definitions of financial statement elements

Analysis

- The **IASB** does not include the definitions of financial statement elements in IAS 1 (and draft IFRS 18), but instead references the definitions and recognition criteria provided in its Conceptual Framework.
- The **IPSASB** currently includes the definitions of financial statement elements in IPSAS 1.
- The IPSAS 1 definitions require updates to ensure consistency with the IPSASB Conceptual Framework (CF).
- Recognition of financial statement elements in particular circumstances is addressed through individual IPSASs.

Recommendation

- Include in the illustrative ED of the new IPSAS the definitions of the financial statement elements.
- To update the definitions of financial statement elements to ensure consistency with IPSASB CF.

Definitions of financial statement elements

Question

1. Does the IPSASB agree to include in the new IPSAS to replace IPSAS 1 the definitions of financial statement elements?

The alternative is to follow the IASB approach:

- Noting that the definitions and recognition criteria for assets, liabilities, income, and expenses are set out in the Conceptual Framework

Definitions of financial statement elements

Questions

2. Does the IPSASB agree to update the definitions of financial statement elements, as currently provided in IPSAS 1, based on the definitions in the IPSASB Conceptual Framework?

Definitions

- Assets
- Liability
- Resource
- Revenue
- Expense
- Net assets/equity
- Ownership contributions
- Ownership distributions

Definitions of financial statement elements

Existing definition in IPSAS 1	Recommended definition for new IPSAS to replace IPSAS 1
<u>Assets</u> are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.	An <u>asset</u> is a resource presently controlled by the entity as a result of past events.
<u>Liabilities</u> are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.	A <u>liability</u> is a present obligation of the entity to transfer resources as a result of past events
No definition is currently provided in IPSAS 1.	A <u>resource</u> is a right to either service potential or the capability to generate economic benefits, or a right to both.

Definitions of financial statement elements

Existing definition in IPSAS 1	Recommended definition for new IPSAS to replace IPSAS 1
<p><u>Revenue</u> is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.</p>	<p><u>Revenue</u> is increases in the net assets/equity position of the entity, other than increases arising from ownership contributions.</p>
<p><u>Expenses</u> are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.</p>	<p><u>Expense</u> is decreases in the net assets/equity position of the entity, other than decreases arising from ownership distributions.</p>
<p><u>Net assets/equity</u> is the residual interest in the assets of the entity after deducting all its liabilities.</p>	<p><u>Net assets/equity</u> is the residual measure of total assets minus total liabilities, as reported in the entity's statement of financial position.</p>

Definitions of financial statement elements

Existing definition in IPSAS 1	Recommended definition for new IPSAS to replace IPSAS 1
<p><u>Contributions from owners</u> means future economic benefits or service potential that has-been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which:</p> <ul style="list-style-type: none"> (a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) Can be sold, exchanged, transferred, or redeemed. 	<p><u>Ownership contributions</u> are inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net assets/equity of the entity.</p>

Definitions of financial statement elements

Existing definition in IPSAS 1	Recommended definition for new IPSAS to replace IPSAS 1
<p><u>Distributions to owners</u> means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.</p>	<p><u>Ownership distributions</u> are outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net assets/equity of the entity.</p>

Additional Comparative Information

Analysis

- IPSAS has not yet adopted the IASB requirement to present a statement of financial position at the beginning of the earliest comparative period, in specific circumstances.
- The additional comparative information provides for increased transparency when retrospective amendments result in a material restatement of the opening equity position of an entity.
- Staff consider the additional disclosures are equally applicable to the public sector and see no reason not to bring them into IPSAS as part of this project.

Recommendation

- To propose in the new IPSAS to replace IPSAS 1, requirements to present additional comparative information aligned with IAS 1 (and draft 18).

Additional Comparative Information

Question

Does the IPSASB agree as part of this project, to propose requirements to disclose a statement of financial position as at the beginning of the earliest comparative period, when the previously reported information has been materially impacted by a restatement?

The drafting of the requirements for the illustrative ED and related content for CP will be considered by the Task Force.

General presentation requirements – Offsetting

Analysis

IPSAS 1 prohibits an entity from offsetting assets and liabilities or revenue and expenses, unless specifically required or permitted by an individual standard.

No substantive updates to existing IPSAS 1 requirements are deemed necessary:

- Consistency with principles in IPSASB Conceptual Framework.
- Continued alignment with IAS 1 (and draft IFRS 18).
- No public sector specific issues identified during research and scoping phase.

Recommendation

The general presentation requirements concerning *offsetting* be carried forward from IPSAS 1.

General presentation requirements – Offsetting

Question

Does the IPSASB agree that the requirements in IPSAS 1 concerning offsetting should be carried forward in the *Presentation of Financial Statements* project?

General presentation requirements – Disclosure of Fair Presentation and Compliance with IPSASs

Analysis

IPSAS 1 outlines the requirements for the disclosure of compliance with IPSAS and the disclosures required when a departure from IPSAS is needed to ensure a fair presentation of the financial statements.

Recommendation

The general presentation requirements concerning *offsetting* be carried forward from IPSAS 1.

No substantive updates to existing IPSAS 1 requirements are deemed necessary:

- Consistency with principles in IPSASB Conceptual Framework.
- Continued alignment of requirements with IAS 1 (and draft IFRS 18).
- No public sector specific issues identified during research and scoping phase.

General presentation requirements – Disclosure of Fair Presentation and Compliance with IPSASs

Question

Does the IPSASB agree that the requirements in IPSAS 1 concerning the disclosure of fair presentation and compliance with IPSASs should be carried forward in the *Presentation of Financial Statements* project?

PRESENTATION OF FINANCIAL STATEMENTS

BREAKOUT GROUP DISCUSSION

IPSASB Meeting – March 2024

Anthony Heffernan, Principal

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Presentation of Revenue and Expense Items in IPSAS

Statement of Financial Performance

Presents all revenue and expense for the period unless an IPSAS requires or permits otherwise

- **Revenue includes** all increases in the net assets/equity, other than increases arising from ownership contributions
- **Expense includes** all decreases in the net assets/equity, other than decreases arising from ownership distributions

Reports the 'surplus or deficit for the period'

Statement of Changes in Net Assets/Equity

Presents items of revenue and expense required or permitted by IPSAS to be recognized directly in net assets/equity

Typically includes unrealized gains/losses arising from the remeasurement of certain assets and liabilities at revalued amounts

Presentation of Revenue and Expense Items

IPSASB

Statement of Financial Performance

Revenue

Expense

Surplus or deficit

Statement of Changes in Net Assets

Surplus or deficit

Items recognized directly in net assets

Contributions from/(to) owners

Revenue and expense items currently recognized directly in net assets/equity in specific circumstances:

- Changes in the valuation of non-financial assets
- Gains and losses from measuring financial instruments at fair value
- Remeasurement of defined benefit plans
- Translation of foreign operations

Presentation of Income and Expense Items in IFRS



Statement of Profit or Loss

Presents all revenue and expense (including gains and losses) for the period unless an IFRS requires or permits the item to be reported through OCI

Reports the 'profit or loss for the period'

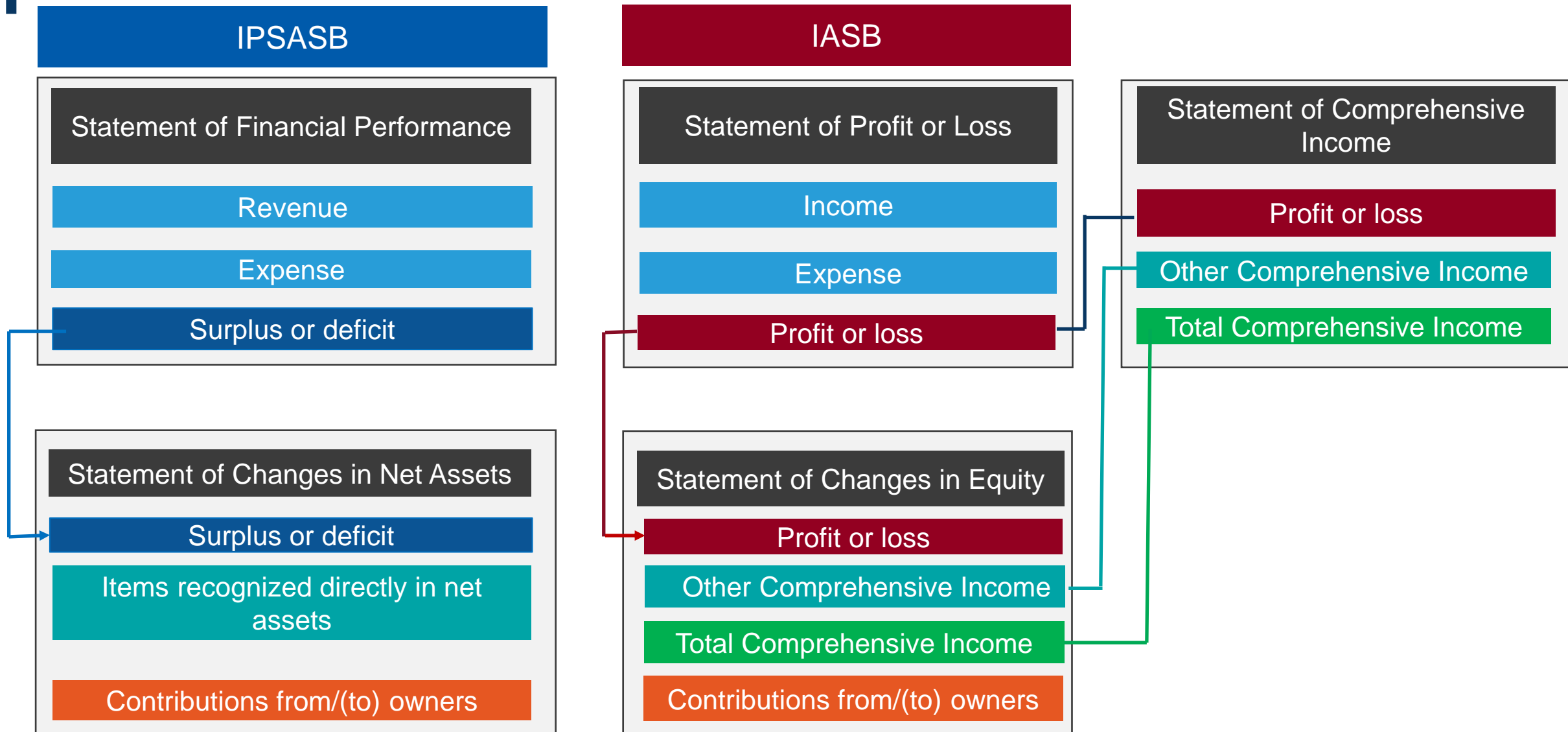
Statement of Comprehensive Income

Presents the profit or loss for the period and other items of revenue and expense reported as other comprehensive income (OCI)

OCI includes the same items of revenue and expense that IPSAS recognizes directly in net assets/equity.

Reports the 'total comprehensive income for the period'

Presentation of Revenue and Expense Items

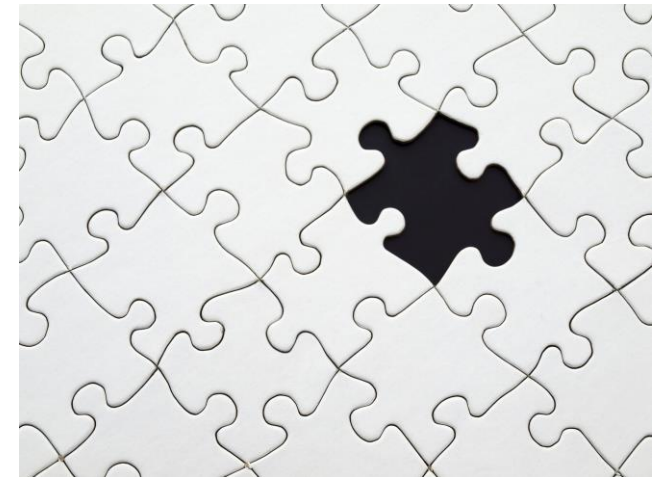


IASB's OCI Presentation Approach

Two examples

Example One: Increase from subsequent measurement of **land** carried at revalued amounts

Example Two: Gains from subsequent measurement of **equity instruments** designated at fair value through OCI



IASB's OCI Presentation Approach – Example One

Example	IFRS requirements
<p><i>Revaluation of land</i></p> <p>An entity subsequently measures land assets at revalued amounts</p>	<p><i>IAS 16, Property, Plant and Equipment</i></p> <ul style="list-style-type: none"> Increases from revaluations are recognized in OCI and accumulated in equity under a separate revaluation reserve. <ul style="list-style-type: none"> ➤ However, increases are recognized in the profit or loss if it reverses a loss previously recognized in the profit or loss for the same asset. Decreases from revaluation are recognized in OCI to the extent that the decrease offsets a positive balance in the existing reserve for the same asset. <ul style="list-style-type: none"> ➤ The remaining balance is taken to profit or loss.

IASB's OCI Presentation Approach – Example One

Revaluation of land

- Entity A purchases land for CU 500,000
- At end of Year 1 the market value of the land has increased by CU 200,000 to CU 700,000

Revaluation gains
recognized through OCI

Statement of Profit and Loss For the year ended

	CU
Revenue	-
Expenses	-
Profit/(loss) for the year	-

Statement of comprehensive income For the year ended 20X1

	CU
Profit/(loss) for the year	-
Other comprehensive income	
Gains/(losses) on revaluation of land	200,000
Total Comprehensive income for the year	200,000

For simplicity, assume all other transactions are zero, and the opening equity was CU 500,000

IASB's OCI Presentation Approach – Example One

Revaluation of land

Revaluation gains recognized through OCI are taken to separate equity reserve

Statement of Financial Position As at end of year 20X1

	CU
Assets	
Land	700,000
Liabilities	-
Net Assets	700,000
Equity	
Retained earnings	500,000
Land revaluation surplus	200,000
Total equity	700,000

Statement of changes in equity For the year ended 20X1

	Retained earnings	Land revaluation surplus	Total equity
	CU	CU	CU
Opening balance	500,000	-	500,000
Profit/(loss) for the year	-	-	-
Other comprehensive income	-	200,000	200,000
Total comprehensive income for the year	-	200,000	200,000
Closing balance	500,000	200,000	700,000

IASB's OCI Presentation Approach – Example Two

Example	IFRS requirements
<p>Revaluation of equity instruments</p> <p>An entity designates its investments in equity instruments at fair value through OCI (FVTOCI)</p>	<p><i>IFRS 9, Financial Instruments</i></p> <ul style="list-style-type: none"> Gains or losses from fair value re-measurements are recognized in OCI until the financial asset is derecognized or reclassified, except for impairment losses. When a financial asset is <u>derecognized</u> the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss as a reclassification adjustment. When a financial asset is <u>reclassified</u> from FVTOCI, the treatment of the OCI balance will depend on whether it is reclassified into amortized cost or into the fair value through profit or loss measurement category.

IASB's OCI Presentation Approach – Example Two

Revaluation of equity investments – Year One

- Entity B purchases equity instruments for CU 100,000
- Entity B classifies the investments as at FV through OCI
- At end of year one the market value of the shares has decreased by CU 20,000 to CU 80,000

All unrealized fair value gains/losses are taken through OCI

For simplicity, assume all other transactions are zero, and the opening equity was CU 100,000

Statement of Profit and Loss For the year ended 20X1

	CU
Revenue	-
Expenses	-
Profit/(loss) for the year	-

Statement of comprehensive income For the year ended 20X1

	CU
Profit/(loss) for the year	-
Other comprehensive income	
Revaluation of equity instruments	(20,000)
Total Comprehensive income for the year	(20,000)

IASB's OCI Presentation Approach – Example Two

Revaluation of equity investments – Year One

Statement of Financial Position As at end of year 20X1

	CU
Assets	
Investments in shares (At FV through OCI)	80,000
Liabilities	-
Net Assets	80,000
Equity	
Retained earnings	100,000
Investments revaluation reserve	(20,000)
Total equity	80,000

Statement of changes in equity For the year ended 20X1

	Retained earnings	Investment revaluation reserve	Total equity
	CU	CU	CU
Opening balance	100,000	-	100,000
Profit/(loss) for the year	-	-	-
Other comprehensive income	-	(20,000)	(20,000)
Total comprehensive income for the year	-	(20,000)	(20,000)
Closing balance	100,000	(20,000)	80,000

Revaluation gains recognized through OCI taken to separate equity reserve

Disposal of equity investments - Year Two

- Entity B sells the equity instruments for CU 150,000
- Total fair value gain for year CU 70,000
- Total cumulative gain CU 50,000

Previous year:

- Cost = CU 100,000
- Carrying amount = CU 80,000

- Current year market value gain taken to OCI
- Total cumulative gains are 'recycled' to P&L upon disposal

Statement of Profit and Loss For the year ended 20X2

	CU
Revenue	-
Cumulative gain on equity investments previously classified to OCI	50,000
Total revenue	50,000
Expenses	-
Profit/(loss) for the year	50,000

Statement of comprehensive income For the year ended 20X2

	CU
Profit/(loss) for the year	50,000
Other comprehensive income	
Revaluation gain on equity instruments at FV through OCI	70,000
Cumulative gain on equity instruments reclassified to profit or loss upon disposal	(50,000)
Total other comprehensive income	20,000
Total Comprehensive income for the year	70,000

Presentation of Revenue and Expense Items in GFS



The Statement of operations

Presents revenue and expense items resulting from *transactions*

- **Revenue** is the increase in net worth resulting from transactions
- **Expense** is the decrease in net worth resulting from transactions

Reports the 'net operating balance' for the period

GFS defines a **transaction** *as an economic flow that is an interaction between institutional units by mutual agreement or through the operation of the law, or an action within an institutional unit that is analytically useful to treat like a transaction, often because the unit is operating in two different capacities*

Statement of Other Economic Flows

Presents other changes in net worth that do not result from transactions

Other economic flows are attributable to gains or losses resulting from changes in the prices of assets and liabilities, as well as other changes in their volume

Presentation of Revenue and Expense Items

IPSASB

Statement of Financial Performance

Revenue

Expense

Surplus or deficit

Statement of Changes in Net Assets

Surplus or deficit

Other gains or losses

Contributions from/(to) owners

IASB

Statement of Profit or Loss

Income

Expense

Profit or loss

Statement of OCI

Other gains or losses (OCI)

Statement of Changes in Equity

Profit or loss

Total OCI

Contributions from/(to) owners

GFS

Statement of Operations

Income

Expense

Net operating balance

....

Statement of OEF

Other economic flows

Statement of Total Changes
in Net Worth

Net operating balance

Total other economic flows

GFS Presentation Approach Example

For simplicity, assume all other transactions and economic flows are zero

Gain in value of land

- The opening stock value of land is CU 500,000
- At end of Year 1 the market value has increased by CU 200,000 to CU 700,000

Opening stocks

Balance Sheet

Opening
balance
CU

Nonfinancial assets

Land 500,000

Financial assets

-

Liabilities -

Net worth 500,000

Transactions

Statement of Operations

CU

Transactions affecting net worth

Revenue

Expense -

Net/gross operating -

balance

Net/gross investment in
nonfinancial assets -

Net lending/(net
borrowing) -

Other Economic Flows

Statement of Other Economic Flows

For the year ended 20X1

CU

Change in net worth due to holding gains/losses

Fixed assets 200,000

Change in net worth due
to changes in volume -

Change in net worth due
to other economic flows 200,000

Closing stocks

Balance Sheet

Closing
balance
CU

Nonfinancial assets

Land 700,000

Financial assets

-

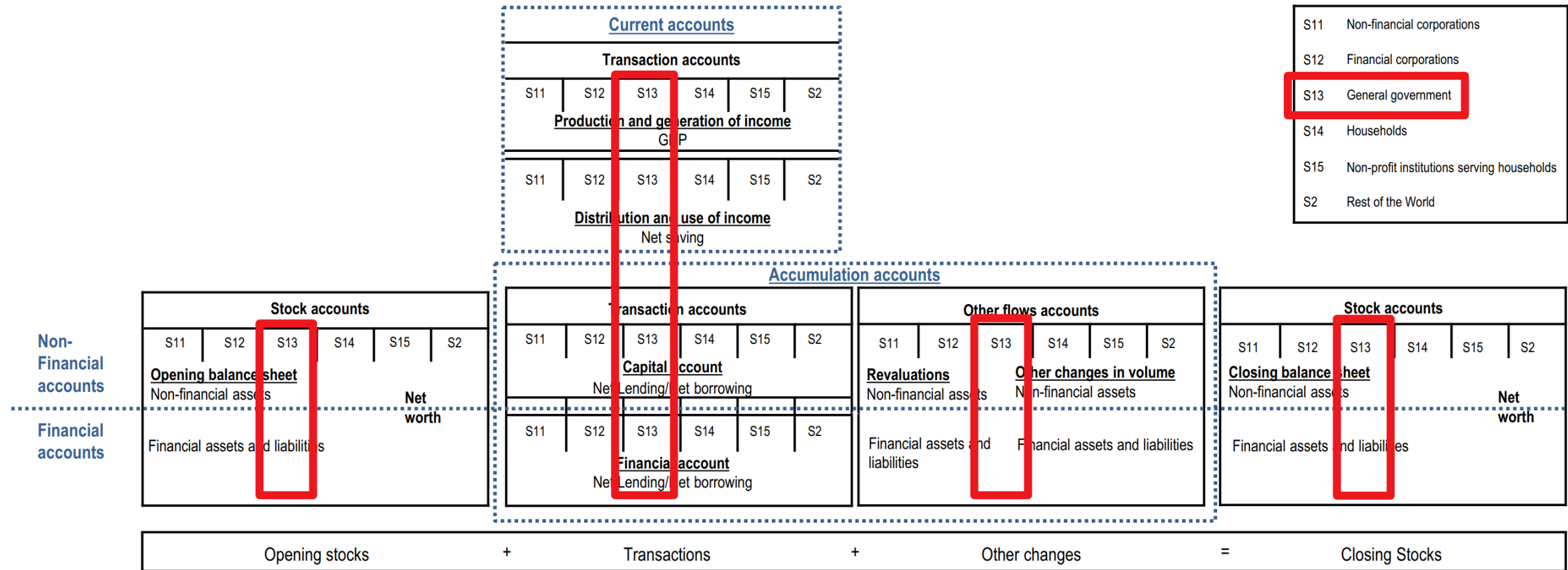
Liabilities -

Net worth 700,000

Difference from IPSAS/IFRS – other economic flows are not recorded and accumulated in separate equity reserves

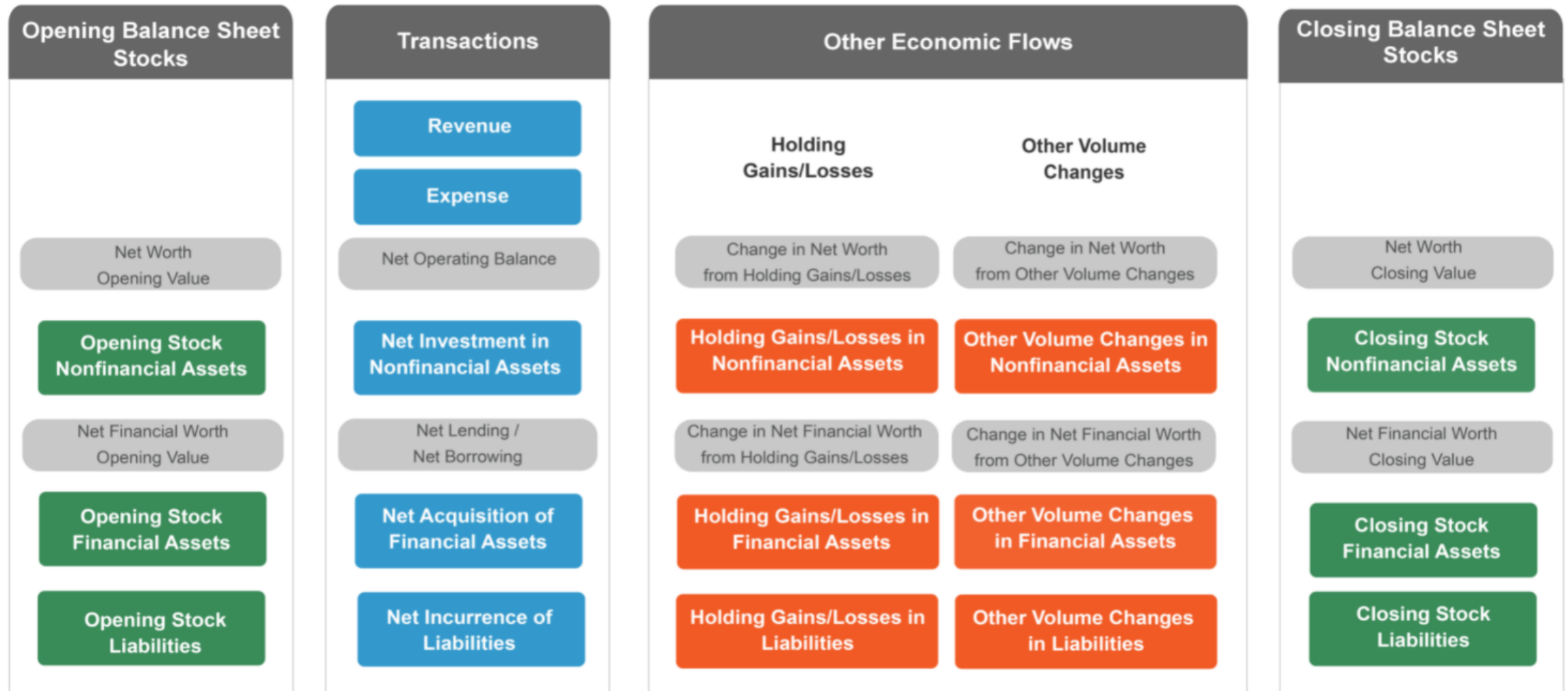
GFS-aligned Approach: General Government Sector

Figure 1.1. Sequence of accounts in the 2008 SNA



Source: OECD

GFS-aligned Approach: GFS-Framework



Source: IMF

Presentation of transactions and other events – IPSAS v GFS

		IPSAS		
		Statement of Financial Performance	Directly in Net Assets/Equity	Not recognized or at a different point in time
GFS	Statement of Operations	<ul style="list-style-type: none"> Taxes on income, profits and capital gains Current and Capital grants Wages and Salaries Social assistance benefits Use of Goods and Services Depreciation expense for PP&E measured at current value (replacement cost) 		<ul style="list-style-type: none"> Realized losses from <i>bilateral</i> debt forgiveness/cancellation (removal of the loan from the balance sheet) Depreciation/Consumption of fixed capital (current value) for PP+E measured at historical cost
	Statement of Other Economic Flows	<ul style="list-style-type: none"> Liabilities designated at FV through surplus/deficit: change in FV not attributable to credit risk Financial assets at FV through surplus/deficit: change in FV Investments in equity instruments designated at FV through net assets/equity: Realized gains/losses (e.g. derecognition) 	<ul style="list-style-type: none"> Liabilities designated at FV through surplus/deficit: change in FV attributable to credit risk Investments in equity instruments designated at FV through net assets/equity: Unrealized gains/losses Changes in FV of hedging instruments Changes in the revaluation of PP+E Remeasurement of defined benefit plans Gains/losses from translating the financial statement in a foreign operation 	<ul style="list-style-type: none"> Unrealized and realized gains/losses of marketable financial assets and liabilities measured at amortized cost Realized losses from <i>unilateral</i> write-off (removal of the loan from the balance sheet)
	Not recognized or at a different point in time	<ul style="list-style-type: none"> (Unrealized) expected losses from unilateral write-down of loans by the creditor. Increases/decreases of most provisions (legal disputes, environmental,...) 		

BREAKOUT GROUPS

Breakout session discussion:

Presentation of Revenue and Expense items outside the surplus or deficit

Questions

For items of revenue and expense currently recognized directly in net assets/equity by IPSAS:

- (a) What are the advantages and disadvantages of the current IPSAS approach?
- (b) Is there a need for greater transparency regarding the presentation of these transactions?
- (c) To what extent should the IPSASB seek to align with the presentation approaches in IFRS and/or GFS?
- (d) Are there any other presentation approaches you suggest being considered?

Revenue and expense items currently recognized directly in net assets/equity

- Changes in the valuation of non-financial assets
- Gains and losses from measuring financial instruments at fair value
- Remeasurement of defined benefit plans
- Translation of foreign operations