

**Meeting:** IPSASB Consultative Advisory Group

**Meeting Location:** Riyadh, Saudi Arabia

**Meeting Date:** December 9, 2024

**Agenda Item**

**6**

For:

☐ Approval

☒ Discussion

☐ Information

## PRESENTATION OF FINANCIAL STATEMENTS

<b>Project summary</b>	<p>This objective of the Presentation of Financial Statements project is to enhance the communication effectiveness of financial information reported in general purpose financial statements by developing a new IPSAS to replace IPSAS 1, <i>Presentation of Financial Statements</i>.</p> <p>The project is in the Consultation Paper (CP) development phase.</p>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Discussion Items</b>	<a href="#">Enhancing Transparency of Revenue and Expense Items</a> <a href="#">Recognized Outside Surplus or Deficit</a>	<a href="#">6.1</a>
<b>Other Supporting Items</b>	<a href="#">IPSASB Due Process Checklist</a>	<a href="#">6.2</a>

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## Enhancing Transparency of Revenue and Expense Items Recognized Outside Surplus or Deficit

### Background

1. Currently, IPSAS requires public sector entities to present revenue and expense items on one of the following two statements:
  - (a) In *surplus or deficit* on the Statement of Financial Performance, which is a key source of financial information for users of public sector financial statements; or
  - (b) Outside of surplus or deficit, directly in *net assets/equity*, on the Statement of Changes in Net Assets/Equity, which often receives less attention from financial statements users.
2. The IPSASB has not explicitly developed a basis to determine which revenue and expense items are presented in surplus or deficit, vs. outside of surplus or deficit directly in net assets/equity. However, the IPSASB's allocation developed over time can be broadly summarized as follows, and has been aligned with the IASB's allocation since 2000 (see [Appendix 1](#) for examples of items presented):

Statement of Financial Performance	Statement of Changes in Net Assets/Equity
<ul style="list-style-type: none"><li>• Represents items <b>within “ordinary operations”</b> of the reporting entity to achieve its service delivery objectives</li><li>• Includes <b>realized</b> gains and losses</li><li>• Relates to transactions for which the reporting entity generally <b>has a level of control</b></li></ul>	<ul style="list-style-type: none"><li>• Represents items <b>outside of “ordinary operations”</b> of the reporting entity to achieve its service delivery objectives</li><li>• Includes <b>unrealized</b> gains and losses</li><li>• Relates to transactions for which the reporting entity generally <b>does not have a level of control</b></li></ul>

3. The IPSASB is considering whether to develop new requirements regarding the **presentation of revenue and expense items recognized outside of surplus or deficit** (directly in net assets/equity) on public sector financial statements.<sup>1</sup> To date, the IPSASB has agreed that:
  - (a) Any new presentation requirements developed should enhance the transparency and understanding of this financial information for users of public sector financial statements; and
  - (b) Taking an IFRS-aligned approach would be more conceptually sound and appropriate than a GFS-aligned approach.
4. In December 2024, the IPSASB will engage in breakout group discussions to determine whether there is a need for greater transparency and clearer communication of revenue and expense items recognized outside of surplus or deficit, and how to achieve it. To support its deliberations from the public interest perspective, the IPSASB is seeking advice/views from CAG members on the following:
  - (a) In your view, is there a need for greater transparency and clearer communication of revenue and expense items recognized outside of surplus or deficit in the financial statements?
  - (b) If yes [there is a need], how would you recommend the IPSASB enhance transparency and communication through its standard-setting decisions on the *location of*, and *terminology used to describe* this financial information?

<sup>1</sup> This project focuses on presentation requirements. Thus, this discussion does not consider *which* revenue and expense items are recognized in surplus or deficit vs. outside of surplus or deficit, nor revisit recognition and measurement requirements.

**[Discussion 1] The Need for Greater Transparency and Clearer Communication**

5. Overall, revenues and expenses represent the increases and decreases in an entity's net financial position, other than ownership contributions or distributions. From a public interest perspective, it is important for a reporting entity to be transparent about all of its revenues and expenses in a reporting period, in order to provide the users of its financial statements a full picture of changes in its net financial position and its progress in achieving service delivery objectives. This transparency enables accountability and effective decision-making.
6. Revenues and expenses *in surplus or deficit*, and revenues and expenses *outside of surplus or deficit directly into net assets/equity*:
  - (a) Both represent changes in an entity's net financial position in the reporting period; but
  - (b) Are presented separately on different financial statements under current IPSAS requirements (as noted in paragraph 1).
7. Presenting these two groupings of revenue and expense items separately can help financial statements users better differentiate and understand the nature and quantity of various changes in the reporting entity's net financial position.
8. However, it could be argued that the current requirements to present revenue and expense items outside of surplus or deficit, directly in net assets/equity on the Statement of Changes in Net Assets/Equity, may impede overall transparency and clarity of communications about these movements in the entity's net financial position. This is because:
  - (a) The Statement of Changes in Net Assets/Equity is not used prevalently by financial statements users, and revenue and expense items recognized directly in net assets/equity have reduced visibility and thus less prominence than those recognized in surplus or deficit in the Statement of Financial Performance; and
  - (b) Due to the lack of clarity in IPSAS 1, *Presentation of Financial Statements*, some constituents have noted that revenues and expenses recognized directly in net assets/equity are sometimes presented in an aggregated manner, which obscures the financial information.

**Question for CAG Members:**

- (1) In your view, considering the need of financial statements users to fully understand the changes in an entity's net financial position and the limitations of current IPSAS presentation requirements, is there a need for greater transparency and clearer communication of revenue and expense items outside of surplus or deficit in the financial statements?

**[Discussion 2] Enhancing Transparency and Communication**

*Public Sector Considerations*

9. As noted above, it is useful to separately present revenue and expense items recognized outside of surplus or deficit. However, there appears to be a need and an opportunity to improve the transparency and communication of this financial information, to help financial statements users better understand and assess the entity's financial performance and progress towards its service delivery objectives.

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10. Users of public sector financial statements comprise a broad group of users who receive public sector services or provide resources to fund those services. These users may have different levels of financial and accounting literacy, or perspectives through which they consider and understand information presented in public sector financial statements. This emphasizes the importance of identifying a presentation approach to enhance transparency and communication that is as industry/profession-agnostic as possible, using common and clear language.
11. From the standard-setting perspective, this can influence how the IPSASB sets presentation guidance to better support transparency and clear communication about revenue and expense items recognized outside of surplus or deficit:
  - (a) *Location*: Where should this financial information be presented that is accessible and understandable for financial statements users, to effectively convey the nature, substance, and importance of this information; and
  - (b) *Terminology*: Use terminology that succinctly captures the nature and substance of this financial information, that resonates with the majority of users in the public sector.
12. The location and terminology used to present this financial information can individually and collectively help users of financial statements obtain a more comprehensive understanding of the changes in an entity's financial position and achievement of service delivery objectives, to overall support accountability and decision-making.

### *Location Options*

13. The IPSASB has a few options regarding presentation requirements for revenue and expense items recognized outside of surplus or deficit, each with benefits and drawbacks:

Options <sup>2</sup>	Benefits	Drawbacks
<b>1: Relocate and present them as a separate section on the Statement of Financial Performance</b>	<ul style="list-style-type: none"> <li>• Presents all revenues and expenses in one location, that is already prevalently used by financial statements users to obtain an understanding of the entity's financial performance</li> <li>• Increases visibility of this financial information and provides users with a comprehensive picture of changes in an entity's net financial position (other than ownership contributions or distributions), and its achievement of service delivery objectives</li> </ul>	<ul style="list-style-type: none"> <li>• May result in a very lengthy Statement of Financial Performance</li> <li>• May result in users' confusion / misunderstanding regarding the nature and substance of revenue and expense items inside vs. outside of surplus or deficit (given the greater visibility and prominence)</li> </ul>

<sup>2</sup> These Options do not change the composition of, or overall recognition and measurement requirements related to, revenue and expenses recognized outside of surplus or deficit. These Options relate only to the presentation of the accounting results on the Financial Statements.

Options <sup>2</sup>	Benefits	Drawbacks
<b>2: Relocate and present them on a new, separate Statement</b>	<ul style="list-style-type: none"> <li>Increases visibility of this financial information and provides financial statements users with a comprehensive picture of changes in an entity's net financial position (other than ownership contributions or distributions), and its achievement of service delivery objectives</li> <li>More clearly distinguishes between revenue and expense items related to the entity's achievement of service delivery objectives that are realized and "in their control", and those that are not</li> <li>Better manages the length and volume of information on each Financial Statement</li> </ul>	<ul style="list-style-type: none"> <li>Presents all revenues and expenses across two Statements</li> <li>Potential that new Statement does not receive sufficient attention from users, once introduced</li> <li>May result in users' confusion / misunderstanding regarding the nature and substance of revenue and expense items inside vs. outside of surplus or deficit (given the greater visibility and prominence)</li> </ul>
<b>3: Continue presenting them as separate components on the Statement of Changes in Net Assets/Equity<sup>3</sup></b>	<ul style="list-style-type: none"> <li>Is consistent with current practice and familiar for users of financial statements</li> </ul>	<ul style="list-style-type: none"> <li>Does not achieve the goal of improving transparency and understanding of these revenue and expense items</li> <li>Does not address the current visibility issues in current practice</li> </ul>

14. Considering these potential presentation Options, staff note that:

- (a) Both Options 1 and 2 would increase visibility of revenue and expense items recognized outside of surplus or deficit, and thus improve the transparency and clarity of communications regarding an entity's overall financial performance, changes in its net financial position, and achievement of its service delivery objectives. Option 3 would not achieve the same effect;
- (b) Some of the drawbacks from Options 1 and 2 can be mitigated if the IPSASB identifies and uses a term to more clearly communicate the nature and substance of these revenues and expenses, thus reducing potential confusion and misunderstanding;
- (c) The benefits from Options 1 and 2 are not universal for all public sector entities. Some entities may better benefit from using Option 1, while others from Option 2, depending on specific entity and jurisdictional factors and the needs of their respective users; and
- (d) Allowing entities to choose between Option 1 and Option 2 would support the public interest, and be consistent with two strategic decisions made by the IPSASB on this project:
  - (i) *Balance the need for structure and flexibility* – Permitting public sector entities to choose between Options 1 and 2 would provide flexibility to improve the understandability of financial information based on local jurisdictional considerations; and
  - (ii) *Align with IFRS 18, unless there is public sector rationale to deviate* – Options 1 and 2 are consistent with the presentation options in IFRS 18 *Presentation and Disclosure in*

<sup>3</sup> If the IPSASB decides to proceed with Option 3, there may still be an opportunity to clarify the presentation requirements in IPSAS 1 paragraphs 118-119, though benefits may be limited.

*Financial Statements*<sup>4</sup> (illustrated in [Appendix 1](#)). Given that the recognition and measurement requirements for these revenue and expense items are consistent between IFRS and IPSAS, it would be sensible to also ensure the presentation of these items is also consistent. Thus, there does not appear to be a public sector reason to deviate from IFRS alignment.

## Terminology Options

15. Terminology use continues to be an important consideration and decision for the IPSASB, to use terms in its IPSAS that succinctly capture specific concepts and resonate with public sector users. Recent examples include “current operational value” in IPSAS 46, *Measurement* as a public sector specific current value measurement basis, and “compliance obligation” in IPSAS 47, *Revenue* to capture enforceable promises in a binding arrangement.
16. From a public interest perspective, identifying and using an appropriate and understandable term to describe revenue and expense items recognized outside of surplus or deficit will:
  - (a) Help entities better understand presentation requirements and communicate the nature and substance of these items, improving the overall transparency of financial information; and
  - (b) Help users of these financial statements better understand these changes in the reporting entity’s overall financial position and its achievement of service delivery objectives.
17. In previous IFRS-aligned projects, CAG members have advised the IPSASB to use consistent terminology between IFRS and IPSAS if it has a consistent meaning. However, staff note that:
  - (a) The IASB uses the term “Other Comprehensive Income” (“OCI”) to describe income and expense items recognized outside of profit or loss. Some private sector constituents have found this term confusing. The IASB encourages entities to use another term or label so long as it faithfully represents the characteristics of the information;
  - (b) As noted in paragraph 2, the list of income and expense items recognized outside of profit or loss in IFRS 18 is consistent with the list of revenue and expense items recognized outside of surplus or deficit in IPSAS 1. This would infer that since “OCI” comprises the same income and expenses outside of profit or loss in the private sector as those outside of surplus or deficit in the public sector, the IPSASB should also use the term “OCI”. However, public sector constituents have noted issues with this term, as it may miscommunicate the nature and substance of these revenue and expense items. For example, users in parliamentary and budgetary positions may misunderstand the term and misconstrue these items as available resources; and
  - (c) There may not be a “perfect” term to use in the IPSASB’s presentation guidance to describe revenue and expense items recognized outside of surplus or deficit. Regardless of the terminology selected, the IPSASB can provide additional guidance to clarify the purpose and intention behind the term and, similar to IFRS, allow entities to use another faithfully representative term or label in its financial statements that better resonates with its users.

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<sup>4</sup> The IASB requires entities to present all income and expense items separately from any changes in net assets that arise from transactions with owners, to help users assess the entity’s performance in the period. IFRS 18 permits entities to present income and expenses in the current period either in a single financial performance statement (comprised of two sections), or on two separate financial performance statements. The IASB requires entities to present income and expense items recognized outside of profit or loss in financial performance statement(s) to provide a more comprehensive and transparent view of financial performance, in comparison to the historical approach of recognizing directly through equity.

*Requested Advice*

18. CAG members are asked to provide advice and feedback on how the IPSASB should set presentation requirements to enhance transparency and communication of this information for users of financial statements:

- (a) *Location to present this financial information in an effective, accessible, and understandable manner:* Should the IPSASB require entities to present revenue and expense items recognized outside of surplus or deficit using Option 1, Option 2, Option 3, or offer a choice?

And / Or

- (b) *Terminology to use to best communicate the nature and substance of this financial information:* What terminology could the IPSASB use in its presentation guidance to describe revenue and expense items recognized outside of surplus or deficit?

**Question for CAG Members:**

- (2) If yes [there is a need], how would you recommend the IPSASB enhance transparency and communication through its standard-setting decisions on the location of, and terminology used to describe this financial information? (see details in paragraph 18)

## Appendix 1 – Additional Information

*This Appendix is provided information purposes only.*

### **Presentation of Revenues and Expenses in IPSAS**

IPSAS requires entities to recognize and present certain revenue and expense items in surplus or deficit (on the Statement of Financial Performance), and certain revenue and expense items outside of surplus or deficit directly in net assets/equity (on the Statement of Changes in Net Assets/Equity).

The specific requirements are presented in individual IPSAS. The IPSASB has not explicitly developed a basis for the allocation. Rather, the IPSASB's allocation developed over time. The following table provides some examples for information purposes only.

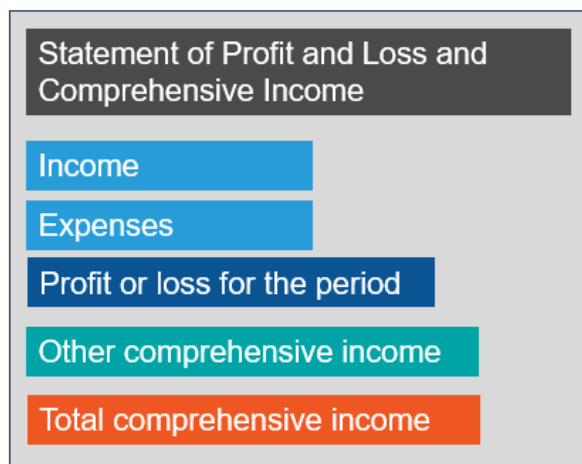
Statement of Financial Performance	Statement of Changes in Net Assets/Equity
<ul style="list-style-type: none"> <li>• Revenue and expenses from general <b>operating-related transactions</b> to achieve its service delivery objectives, including the gain or loss from the derecognition of assets or settlement of liabilities</li> <li>• Revenue and expenses from <b>investing-related transactions</b> to support the execution of its service delivery objectives (see impairment below)</li> <li>• Revenue and expenses from <b>financing-related transactions</b> to support the execution of its service delivery objectives (e.g., interest income and interest expense)</li> <li>• <b>Impairment</b> of assets, including write-down of inventories or biological assets, and downward revaluation of assets held for sale or discontinued operations</li> <li>• <b>Revaluation</b> of certain financial instruments measured at fair value through surplus or deficit</li> </ul>	<ul style="list-style-type: none"> <li>• Changes from <b>unrealized revaluations</b> of certain non-current assets (property, plant, and equipment or intangible assets)</li> <li>• <b>Remeasurements</b> of defined benefit liabilities</li> <li>• Foreign exchange <b>translation</b> adjustments</li> <li>• <b>Unrealized gains or losses from the revaluation</b> of certain financial instruments measured at fair value through net asset/equity, including: <ul style="list-style-type: none"> <li>○ Investments in equity instruments designated at fair value through net asset/equity</li> <li>○ Financial assets measured at fair value through net asset/equity</li> <li>○ Certain hedging instruments and other financial instruments in a hedging relationship</li> </ul> </li> <li>• For certain financial liabilities designated as at fair value through surplus or deficit, the amount of the <b>unrealized change</b> in fair value that is attributable to changes in the liability's credit risk</li> </ul>



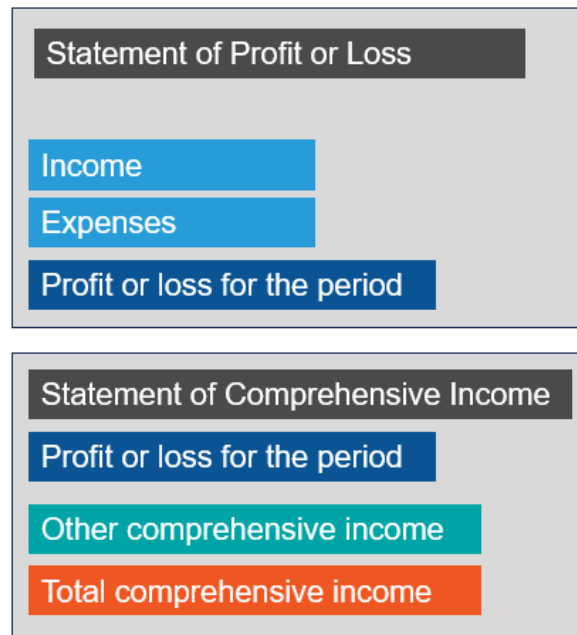
## Illustration of IFRS 18 Presentation Options

The following graphic illustrates the two presentation approaches under IFRS 18.

### Single statement



### Two statements



## IPSASB Due Process Checklist

**Project:** Presentation of Financial Statements

#	Due Process Requirement	Yes/No	Comments
<b>A. Project Brief</b>			
A1.	A proposal for the project (Project Brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSASB considered the draft project brief in June and September 2023. See minutes from: <ul style="list-style-type: none"> <li>• <a href="#">June 2023</a> (Agenda Item 13); and</li> <li>• <a href="#">September 2023</a> (Agenda Item 10).</li> </ul>
A2.	The IPSASB has approved the project in a public meeting.	Yes	The IPSASB approved the <a href="#">Project Brief</a> in September 2023 (see <a href="#">September 2023 minutes</a> Agenda Item 10).
A3.	The IPSASB CAG has been consulted on the Project Brief.	Yes	The CAG provided feedback on key aspects of the project to inform the development of the project brief in <a href="#">June 2023 Agenda Item 6</a> .
<b>B. Development of Proposed International Standard</b>			
B1.	The IPSASB has considered whether to issue a Consultation Paper or undertake other outreach activities to solicit views on matters under consideration from constituents.	Yes	In its <a href="#">Project Brief</a> , the IPSASB agreed to issue a Consultation Paper (CP) together with an illustrative Exposure Draft (ED) during the first phase of public consultation.  Upon issuing the CP together with the IED, the IPSASB will consider the nature of other outreach activities to support this consultation.
B2.	If comments have been received through a Consultation Paper or other public forum, they have been considered in the same manner as comments received on an Exposure Draft.	TBD	[Pending – the IPSASB is in the process of developing a CP and IED]
B3.	The IPSASB CAG has been consulted on significant issues during the development of the Exposure Draft.	TBD	[Pending]
B4.	The IPSASB has approved the issue of the Exposure Draft.	TBD	[Pending]

#	Due Process Requirement	Yes/No	Comments
<b>C. Public Exposure</b>			
C1.	The approved Exposure Draft has been posted to the IPSAS website for public comment for an appropriate period.	TBD	[Pending]
C2.	Comments on the Exposure Draft have been posted to the IPSASB website after the end of the exposure period.	TBD	[Pending]
<b>D. Consideration of Respondents' Comments on an Exposure Draft</b>			
D1.	Staff have provided the IPSASB, as part of the public agenda papers, with an analysis summarizing the significant issues raised by respondents, outlined their proposed disposition, and, as appropriate, explained why significant changes recommended by respondents have or have not been accepted.	TBD	[Pending]
D2.	The IPSASB has deliberated significant matters raised in the comment letters, and significant decisions have been minuted.	TBD	[Pending]
D3.	The IPSASB has considered whether there are any issues raised by respondents, in addition to those summarized by Staff, that it considers should have been discussed by the IPSASB.	TBD	[Pending]
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the Exposure Draft and the IPSASB's related responses.	TBD	[Pending]
D5.	Significant comments from consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.	TBD	[Pending]
D6.	The IPSASB has assessed whether there has been substantial change to the exposed document such that re-exposure is necessary.	TBD	[Pending]

#	Due Process Requirement	Yes/No	Comments
D7.	If applicable, the IPSASB has voted on a resolution in favor of re-exposure.	TBD	[Pending]
D8.	The basis of the IPSASB's decision with respect to re-exposure has been minuted.	TBD	[Pending]
D9.	If the Exposure Draft has been re-exposed, the explanatory memorandum accompanying the re-Exposure Draft explained the reasoning for re-exposure and the changes made as a result of the earlier exposure.	TBD	[Pending]
<b><i>E. Approval</i></b>			
E1.	The Program and Technical Director has confirmed to the IPSASB that due process has been followed effectively the final Standard is approved for issuance.	TBD	[Pending]
E2.	The IPSASB has approved the final revised content of the exposed Standard in accordance with its Terms of Reference.	TBD	[Pending]
E3.	If applicable, the IPSASB has set an effective date for application of the final Standard.	TBD	[Pending]
E4.	The IPSASB's basis for conclusions has been prepared and included in the final Standard.	TBD	[Pending]

Completed by: IPSASB Staff as of December 2024.