

## **Presentation of Financial Statements – December 2024 Report Back**

1. A summary of the advice provided by CAG members from the December 2024 CAG Meeting and how the IPSASB has responded to the CAG member comments are included in the table below:

<b>Representatives' and Observers' Comments</b>	<b>IPSASB Staff Response</b>
<b>December 2024 CAG Meeting Comments</b>	
<p>IPSASB Principal, Eileen Zhou, presented analysis regarding the presentation of revenue and expenses outside surplus or deficit. Certain IPSAS require specific revenue or expense items to be recognized outside surplus or deficit (directly in net assets/equity and presented in the Statement of Changes in Net Assets/Equity (SoCNAE). The allocation of these items in, or outside, of surplus or deficit has been developed over time, consistent with IFRS. Ms. Zhou shared that some constituents have raised concerns about the transparency and prominence of this financial information, and the IPSASB has the opportunity to consider new presentation requirements for revenue and expense items recognized outside of surplus or deficit to enhance transparency and understanding of this financial information.</p> <p>Ms. Zhou asked CAG members to consider the following questions:</p> <ul style="list-style-type: none"><li>• Question 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?</li><li>• Question 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?<ul style="list-style-type: none"><li>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</li><li>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?</li></ul></li></ul>	

The CAG members commented on Question 1 as follows:	
1. Ms. Stachniak agreed that there is an opportunity for greater transparency, and advised the IPSASB to present all financial performance information in one location. She noted that the SoCNAE is not an appropriate location because of its reduced prominence and different purpose (i.e., not meant to be used to present revenue or expenses).	The IPSASB considered and incorporated CAG member feedback into its December 2024 discussions, to determine whether current IPSAS requirements provide sufficient transparency, and identify potential presentation options (e.g., in which statement to locate this information). The IPSASB decided to outline these presentation options, with benefits and drawbacks, in the draft Consultation Paper. Ms. Stachniak's view is reflected in the IFRS18 alignment approach.
2. Mr. Gisby noted that the introduction of OCI would address constituent concerns in this jurisdiction by increasing the visibility of financial performance information, particularly the numerous items currently buried in "reserves". Public sector financial statement users who are familiar with IFRS find the lack of OCI in the public sector to be confusing. However, Mr. Gisby acknowledged that additional education is necessary, once these revenue and expense items are presented more prominently.	See response to comment 1 above. Mr. Gisby's view is reflected in the IFRS18 alignment approach.

<p>3. Ms. Dar agreed that there is a need for greater transparency about revenue and expense items recognized in net assets/equity, for the reasons presented by the staff. She advised the IPSASB to ensure that new presentation guidance is sufficiently clear so that preparers appropriately recognize revenue and expense items, at the right level of aggregation/disaggregation. She recommended the IPSASB proceed with Option 2 (present this financial performance information outside of Statement of Financial Performance (SoFP) to support budget-to-actual analysis. Ms. Dar also suggested that the IPSASB consider the principles behind why certain revenue and expenses items are in recognized in net assets/equity versus not.</p>	<p>See response to comment 1 above.</p> <p>Ms. Dar's view is reflected in the IFRS18 alignment approach.</p> <p>Through its deliberations and breakout sessions, IPSASB members also concurred that preparers should appropriately apply materiality and aggregation and disaggregation principles.</p>
<p>4. Mr. Chughtai noted that UN entities typically prefer meaningful narration to support financial reporting, rather than changes in the financial reporting itself. He agreed that there could be more clarity about the information presented, but presenting all revenue and expense information on a single statement would cause issues, and advised the IPSASB to provide entities with a policy choice.</p>	<p>See response to comment 1 above.</p> <p>Mr. Chughtai's view is reflected in the IPSAS 1 retention approach. The IFRS 18 approach, which is also presented in the Consultation Paper, would provide entities with a choice between a single, or two separate, financial performance statements.</p>
<p>5. Mr. Close shared that there is sufficient transparency around operating revenue and expenses in his jurisdiction. He agreed that additional narrative explanation and education about these items would be more useful than relocating the financial information into a different statement.</p>	<p>See response to comment 1 above.</p> <p>Mr. Close's view is reflected in the IPSAS 1 retention approach.</p>

<p>6. Mr. Williamson noted that laypeople would want more transparency, and separate presentation of items recognized directly in net assets/equity would be important for certain entities, but not others. Thus, he advises the IPSASB to provide options, to allow entities to consider their specific users' needs and context. In his view, it would be important to have a clear distinction between items in surplus or deficit and those in net assets/equity.</p>	<p>See response to comment 1 above. The current draft of the Consultation Paper notes the importance of considering specific needs and context.</p>
<p>7. Mr. Zhang encouraged the IPSASB to consider what is "transparency", and that the main users of public sector financial statements are resource providers, who may not understand Other Comprehensive Income ("OCI") or misinterpret these items as available resources to be spent. Presenting these items outside the SoFP would appropriately keep the SoFP focused on operations. He concluded that there is no strong need to relocate or change the current presentation requirements.</p>	<p>See response to comment 1 above. Mr. Zhang's view is reflected in the IPSAS 1 retention approach. Both of the IPSASB's proposed presentation approaches will continue to separately present revenue and expense items recognized outside of surplus and deficit, separately from items recognized in surplus or deficit.</p>
<p>8. Mr. Johri noted that separate disclosure usually leads to more transparency, but having too much information in a separate statement could lead to a less meaningful SoFP.</p>	<p>See response to comment 1 above. The Consultation Paper notes the importance of providing information in a meaningful manner.</p>
<p>9. Mr. Simpson commented that this discussion, which focuses on the relocation of financial information, would not negatively impact or eliminate financial information. He agreed that OCI is not very intuitive, and generally not well-understood, and that the emphasis on an entity's ability to control the revenue or expense item is useful.</p>	<p>Ms. Zhou confirmed that the IPSASB is considering the presentation of revenue and expense items recognized outside of surplus or deficit (specifically, the location of this information), and not whether these items should or should not be outside of surplus or deficit. The Consultation Paper reflects the importance of presenting information in a way that is intuitive and understandable by financial statement users.</p>

The CAG members commented on Question 2 as follows:	
10. Ms. Raboy advised the IPSASB to converge with IFRS, which would help public sector entities that consolidate entities reporting using IFRS.	See response to comment 1 above. Ms. Raboy's view is reflected in the IFRS18 alignment approach.
11. Ms. Stachniak noted that she is against option 3 but also does not feel strongly about options 1 or 2. She encouraged the IPSASB to allow jurisdictions to make the decision, and provide narrative reporting through improved note disclosures. Ms. Stachniak stressed that the decision should be made at the jurisdiction level and not at the individual entity level. Ms. Stachniak agreed OCI is not a good term to use, even for the private sector, and suggested using a term that includes "performance".	See response to comment 1 above.
12. Mr. Smith Mansilla advised the IPSASB to require better descriptions of the items recognized in net assets/equity and to use a term other than OCI. He noted that some entities, such as the UN, may not need to make any changes, considering the content of their financial statements.	See response to comment 1 above. Most IPSASB members view "OCI" to not be an appropriate term. The Consultation Paper proposes a term to refer to revenue and expense items recognized outside of surplus or deficit, that is not "OCI".

<p>13. Mr. Zhang reflected that the OCI term is not the issue; rather, the inclusion of OCI items in the SoFP would imply that they are resources available to the entity. In his view, the best approach to enhancing transparency would be to leave OCI items outside the SoFP, and to add a note to explain that certain unrealized, non-operating, and uncontrollable items are not included in SoFP and provide more detailed listing of these items. Mr. Zhang acknowledged that aligning with IFRS saves time and expedites the development process but noted that there are differences in the public sector which could lead to different approaches. The suggested disclosure and listing of items would maintain alignment with IFRS and address public sector differences.</p>	<p>See response to comments 7 and 12 above.</p>
<p>14. Mr. Chughtai noted his agreement with Mr. Zhang's suggestion regarding the disclosure and listing of items in net assets/equity.</p>	<p>See response to comments 7 and 12 above.</p>
<p>15. Mr. Gisby noted the need to increase the prominence of the items in net assets/equity, but his constituents were equally split between presenting these items in one or separate statements. He advised it is important for the IPSASB to determine which items should be recognized directly in net assets/equity.</p>	<p>See response to comments 1 and 9 above.</p>
<p>16. Mr. Close supported Option 2, as users focus on financial position and performance. He also noted that separately presenting these items in a separate statement may be confusing and that the clarification of which items are ongoing versus one-off items may provide helpful information.</p>	<p>See response to comments 1 and 9 above.</p>

17. Ms. Dar noted that she does not see any compelling reason to deviate from IFRS and encouraged the IPSASB to allow entities to choose between Option 1 and 2. She suggested the IPSASB consider terminology that denotes “overall” or “total” surplus or deficit instead of OCI.	See response to comment 12 above.
18. Mr. Williamson supported Option 1, or the choice between Option 1 and 2, because it is comprehensive and is comparable to IFRS. He advised the IPSASB clarify the composition of OCI and the entity’s control over these items, and that the term OCI has no meaning to a layperson.	See response to comments 1 and 9 above. Mr. Williamson’s view is reflected in the IFRS18 alignment approach.
19. Mr. Gisby cautioned against changing from one meaningless term (OCI) to another meaningless term.	See response to comment 12 above.