

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

**Meeting Location:** Toronto, Canada

**Meeting Date:** June 10–13, 2025

# Agenda Item 11

For:

Approval

Discussion

Information

## PRESENTATION OF FINANCIAL STATEMENTS

<b>Project summary</b>	This project aims 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> . The project is in the Consultation Paper (CP) development phase.	
<b>Project staff lead[s]</b>	<ul style="list-style-type: none"> <li>Eileen Zhou, Principal</li> </ul>	
<b>Task Force members</b>	<ul style="list-style-type: none"> <li>David Watkins, IPSASB Technical Advisor (Task Force Chair)</li> <li>Claudia Beier, IPSASB Member</li> <li>Angela Ryan, IPSASB Member</li> <li>Andrew van der Burgh, IPSASB Member</li> <li>Jonah Wala, IPSASB Member</li> <li>Jean-Pierre Menanteau, Conseil de normalisation des comptes publics (CNoCP) France</li> <li>Antonella Risi, Public Sector Accounting Board (PSAB) Canada</li> </ul>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Project Management Dashboard</a>	<a href="#">11.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">11.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">11.1.3</a>
	<a href="#">Presentation of Financial Statements: Project Roadmap</a>	<a href="#">11.1.4</a>
<b>Decisions required at this meeting</b>	<a href="#">A GFSM 2014 Approach to Categorization on the Statement of Financial Performance</a>	<a href="#">11.2.1</a>
	<a href="#">Impact of Main Business Activities on the Categorization of Revenue and Expenses</a>	<a href="#">11.2.2</a>
	<a href="#">Finalize Views on the Presentation of Totals and Subtotals</a>	<a href="#">11.2.3</a>
	<a href="#">Presentation of Minimum Line Items on the Statement of Financial Performance</a>	<a href="#">11.2.4</a>

Presentation of Financial Statements IPSASB  
Meeting (June 2025)

	<a href="#">Presentation of Expenses on the Statement of Financial Performance</a>	<a href="#">11.2.5</a>
	<a href="#">Review of the Updated [draft] Consultation Paper</a>	<a href="#">11.2.6</a>
<b>Other supporting items</b>	<a href="#">Supporting Document 1 – Updated Project Plan</a>	<a href="#">11.3.1</a>
	<a href="#">Supporting Document 2 – [draft] Consultation Paper</a>	<a href="#">11.3.2</a>

**PRESENTATION OF FINANCIAL STATEMENTS:  
 PROJECT MANAGEMENT DASHBOARD**

The table below summarizes the topics to be addressed in the Consultation Paper (CP) and Illustrative Exposure Draft (IED) phase of the project, ordered based on the expected sequence of the IED.

	Past meetings	Jun 2025	Sep 2025	Dec 2025
<b>Project Management</b>				
Completion of Research and Scoping	✓			
Approval of Project Brief	✓			
Review and Approval of CP and IED				📄
<b>CP and IED Development</b>				
Objective, Scope, Purpose, Users, Info Needs	✓📄			
Definitions	✓📄			
General Principles of Presentation <sup>1</sup>	✓📄		📄	
Statement of Financial Position	✓📄			
Statement of Financial Performance	📄	📄		
Statement of Changes in Net Assets/Equity	📄		📄	
Disclosure in the Notes	📄		📄	
<b>CP (other elements)</b>				
Other Chapters or Appendices	✓📄	📄		📄
<b>IED (other elements)</b>				
Other Sections	📄			📄

Legend			
✓	Task Completed	📄	Planned IPSASB Discussion
📄	Breakout Group Discussion	📄	Page-by-page Review

<sup>1</sup> This includes responsibility for financial statements, fair presentation and compliance with IPSAS, reporting period and frequency of reporting, consistency of reporting and comparatives, going concern, materiality, aggregation and disaggregation, and offsetting.

**INSTRUCTIONS UP TO PREVIOUS MEETING**

Meeting	Instruction	Actioned
March 2025	1. Include the option of a GFS-aligned approach to categorizing revenue and expense items recognized in surplus or deficit on the Statement of Financial Performance in the [draft] Chapter 4.	1. See analysis in <a href="#">Agenda Item 11.2.1</a> and proposed text in [draft] Chapter 4 of the CP in <a href="#">Agenda Item 11.3.2</a>
March 2025	2. Revise [draft] Chapters 4 and 5 to reflect members' comments, and adjust the narrative to reflect the IPSASB's discussions on the proposed approaches.	2. Revised [draft] Chapter 4 of the CP is presented in <a href="#">Agenda Item 11.3.2</a> . Revised [draft] Chapter 5 will be presented in Q3.
March 2025	3. Consider whether IFRS 18 guidance regarding main business activities and financial statement line items are appropriate for the Statement of Financial Performance, given its tentative views to align with IFRS 18 for categorization.	3. See analysis in <a href="#">Agenda Item 11.2.2</a> and proposed text in [draft] Chapter 4 of the CP in <a href="#">Agenda Item 11.3.2</a>
March 2025	4. Add an Appendix into the CP with relevant excerpts from the IPSASB Conceptual Framework Preface.	4. In progress.
September 2024	1. Include in the IED a Specific Matter for Comment (SMC) regarding the proposal to require the presentation of a third Statement of Financial Position in specific circumstances.	1. In progress.
March 2024	1. Include in the CP a discussion and preliminary view on using the definitions of financial statement elements based on the Conceptual Framework definitions.	1. In progress – this will be included in Chapter 2 of the CP on <i>General Presentation Principles</i> . This Chapter will be based on past IPSASB discussions and decisions and IED guidance already reviewed.
March 2024	2. Consider whether further guidance on disclosing compliance with IPSAS is needed, especially for jurisdictions that have adopted adapted versions of IPSAS.	2. In progress – IPSAS applies to entities that prepare financial statements in full compliance with IPSAS. If a jurisdiction adopts an adapted version of IPSAS, it should develop appropriate disclosures concerning compliance. This could be an area where Staff guidance can be developed to support national standard-setters.
December 2023	1. Engage with users through focus groups/roundtables to inform views and support the development of the CP.	1. Ongoing – The CP is currently being developed through active engagement with a Task Force and other focus groups/roundtables.

**DECISIONS UP TO PREVIOUS MEETING**

<b>Meeting</b>	<b>Decision</b>	<b>BC Reference</b>
March 2025	1. Chapter 4 should acknowledge that there are overarching challenges in identifying a different set of public-sector-specific categories that is sufficiently broad, useful, and applicable for public sector entities and that would receive international consensus.	1. [Draft] Chapter 4 of the CP ( <a href="#">Agenda Item 11.3.2</a> ) reflects IPSASB comments.
March 2025	2. If the IPSASB finalizes a preliminary view to retain and enhance IPSAS 1 presentation requirements, it should not introduce a new term to refer to revenue and expense items recognized outside of surplus or deficit and will ask respondents to share what additional information should be included in the note disclosures.	2. In progress. This will be reflected in [draft] Chapter 5.
December 2024	1. Conceptually, categorizing revenue and expense items in surplus or deficit can be useful, to help users of financial statements better understand, analyze, and compare financial performance information.	1. Draft CP reflects IPSASB comments.
December 2024	2. The Consultation Paper should capture the IPSASB's view that public sector entities have varying needs on the comparability of financial information, depending on their primary users.	2. Draft CP reflects IPSASB comments.
September 2024	1. Chapter 3 of the draft CP on the Statement of Financial Position appropriately reflected the IPSASB's previous deliberation of issues.	1. Draft CP reflects IPSASB comments.
September 2024	2. The draft CP should present a preliminary view (PV) for each key issue considered by the IPSASB during Phase 1 of the project, along with an explanation of the basis of each PV.	2. In progress.
September 2024	3. The IED should focus on showing what the proposed principles and requirements could look like based on the PVs in the draft CP. The Basis for Conclusions section is to be developed in Phase 2 of the project, drawing from the material in the draft CP, and the IPSASB's views following stakeholder input.	3. In progress.
September 2024	4. The following sections of the IED should be carried forward as drafted: a) The general requirements for financial statements; b) The principles of aggregation and disaggregation; and c) The principles on presenting the Statement of Financial Position	4. Reflected in Illustrative ED. A BC will be included in draft ED.

September 2024	5. The order of liquidity and mixed presentation approach for presenting the Statement of Financial Position should be retained in the IED, consistent with existing requirements in IPSAS 1.	5. In progress.
June 2024	1. The requirements for presenting the Statement of Financial Position should be aligned with IFRS 18, which is consistent with existing requirements in IPSAS 1.	1. Reflected in Illustrative ED. A BC will be included in draft ED.
March 2024	1. The definitions of financial statement elements: d) Should be included in the Definitions sections of the IED; e) To be aligned with the definitions of financial statement elements in the IPSASB Conceptual Framework (revised in October 2023).	1. Reflected in Illustrative ED. A BC will be included in draft ED.
March 2024	2. The CP should highlight the proposal to disclose a statement of financial position as at the beginning of the earliest comparative period, in certain circumstances.	2. In progress – to be discussed in Chapter 2 of the CP <i>General Presentation Requirements</i> .
March 2024	3. The existing general offsetting requirements in IPSAS 1 should be carried forward.	3. Reflected in Illustrative ED. A BC will be included in draft ED.
March 2024	4. The existing fair presentation and compliance with IPSAS disclosure requirements in IPSAS 1 should be carried forward into the illustrative ED.	4. Reflected in Illustrative ED. A BC will be included in draft ED.
December 2023	1. Different presentation approaches in IPSAS should be explored through the CP phase of the project. This would allow for increased flexibility to improve the understandability of financial statements based on local jurisdictional considerations.	1. In progress – will be considered as part of project discussions.
December 2023	2. Draft Chapter 1 of the CP appropriately reflects the project objectives, key drivers, scope, and reasons for conducting the project.	2. Draft CP reflects IPSASB comments.
December 2023	3. Draft Chapter 2 of the CP appropriately explains the purpose of financial statements based on the Conceptual Framework.	3. Draft CP reflects IPSASB comments.
September 2023	1. Approved the Project Brief for Presentation of Financial Statements project.	1. <a href="#">Project Brief</a> . A BC will be included in draft ED.

**PRESENTATION OF FINANCIAL STATEMENTS:  
 PROJECT ROADMAP**

<b>Meeting</b>	<b>Completed Discussions / Planned Discussions:</b>
December 2022	1. Project Inception – Discussion of project background and outcomes of scoping and research activities
June 2023	1. Project Inception – Development of Project Brief
September 2023	1. Project Inception – Educational Session on IPSAS 22, <i>Disclosure of Financial Information about the General Government Sector</i> and IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> 2. Project Inception – Approval of Project Brief
December 2023	1. Consultation Paper (CP) Development – Project Overview and Purpose of Financial Statements 2. CP Development – Discussion of Providing Presentation Options, Statement of Financial Performance, and Management-Defined Performance Measures (MPMs)
March 2024	1. CP Development – Discussion of General Presentation Requirements 2. CP Development – Discussion of Revenue and Expense Items Outside the Statement of Financial Performance
June 2024	1. CP Development – Discussion of Statement of Financial Position 2. Illustrative Exposure Draft (IED) Development – Review of Drafting
September 2024	1. CP Development – Review of Drafting 2. IED Development – Review of Drafting
December 2024	1. CP Development – Discussion of Statement of Financial Performance
March 2025	1. CP Development – Discussion of Statement of Financial Performance 2. CP Development – Discussion of Statement of Changes in Net Assets/Equity 3. CP Development – Review of Drafting
June 2025	1. CP Development – Discussion of Remaining Issues regarding the Statement of Financial Performance 2. CP Development – Review of Drafting
September 2025	1. CP Development – Discussion of Remaining Issues (Disclosure in the Notes, remaining General Principles, Other IED elements, etc.) 2. CP Development – Review of Drafting 3. IED Development – Review of Drafting
December 2025	1. CP Development – Review of Drafting 2. IED Development – Review of Drafting 3. Approval of CP and IED

## **A GFSM 2014 Approach to Categorization on the Statement of Financial Performance**

### **Question**

1. Does the IPSASB agree with the Staff and the Task Force's recommendations in paragraph 2?

### **Recommendations**

2. Staff and the Task Force recommend that the IPSASB:
  - (a) Not pursue a Government Finance Statistics Manual 2014 (GFSM 2014) aligned approach to categorizing financial information on the Statement of Financial Performance;
  - (b) Present its rationale in [draft] Chapter 4 and articulate overarching considerations regarding GFSM 2014 alignment in an Appendix of the Consultation Paper (CP); and
  - (c) Finalize its Preliminary View in the CP to require entities to present revenue and expense items in categories on the Statement of Financial Performance, aligned with IFRS 18 *Presentation and Disclosure in Financial Statements*, with additional public sector guidance.

### **Background**

3. The IPSASB is currently considering presentation requirements for the Statement of Financial Performance to develop Presentation of Financial Statements CP. Members unanimously agreed to require entities to categorize revenue and expense items on this Statement, to help financial statements users better understand, analyze, and compare financial performance.
4. In March 2025, IPSASB members tentatively favored categorization on this Statement in alignment with IFRS 18, supplemented by additional public sector guidance, subject to further analysis of a potential GFSM 2014 aligned approach. The IPSASB instructed Staff to include the option of a GFSM 2014 aligned approach to categorizing revenue and expense items recognized in surplus or deficit on the Statement of Financial Performance in the CP.
5. To effectively identify and consider a GFSM 2014 aligned approach, it is important to reflect on key differences between IPSAS Standards and GFSM 2014. This Agenda Item provides relevant background, noting the different underlying objectives of IPSAS Standards and GFSM 2014 for different reporting purposes, which has led to the development of different principles and different presentation requirements.

### **Analysis**

#### *Broad IPSAS Standards-GFSM 2014 Alignment Considerations*

6. In developing IPSAS Standards, the IPSASB acknowledges that there are similarities and differences between the IPSAS Standards and GFSM 2014 reporting frameworks (see details in [Appendix 1](#)). While there are benefits to fully harmonizing IPSAS accrual-based accounting with GFSM 2014 statistical accounting, there are also related challenges due to important differences between IPSAS

and GFSM 2014.<sup>2</sup> These differences are a direct result of the underlying objectives and separate developments of the two reporting frameworks:

- (a) The IPSAS Standards provide *accounting* guidance for use to prepare general purpose financial reports to enhance the quality and transparency of public sector financial reporting, providing better information for public sector financial management, *for accountability and decision-making purposes*. Those preparing reports based on IPSAS Standards comprise a *wide range of public sector entities* including national, regional, local governments, ministries, authorities, and international government and inter-government organizations with various service delivery objectives.
  - (b) The GFSM 2014 provides *statistical* guidance and is a comprehensive analytic framework to support *fiscal analysis* suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector of any economy. Those preparing reports based on GFSM 2014 are typically *entities/institutions in the statistical and macro-fiscal space* (finance ministries, statistics offices) for national governments to evaluate its impact on the economy and influence on other sectors of the economy.
7. While IPSAS Standards and GFSM 2014 reporting guidelines may use similar financial information sets, they also achieve different objectives that result in fundamental differences in how, what, and where information is reported<sup>3</sup>. These fundamental differences arise from underlying conceptual differences that cannot be resolved through changes in either IPSAS Standards or GFSM 2014, which limits the extent to which full alignment can be achieved. Thus, the IPSASB considers alignment opportunities to reduce unnecessary differences in its work and reflects this in its project drivers for this project.

#### *Considering GFSM 2014 Alignment in Developing this CP*

8. In developing its CP, the IPSASB has considered GFSM 2014 alignment as follows:
- (a) Generally, increased flexibility in IPSAS presentation requirements could encourage greater integration and use of accrual-based information for GFSM 2014 and budgetary reporting. Some jurisdictions prepare budgets based on financial statement information while others prepare budgets based on GFSM 2014 or cash basis information<sup>4</sup>; however
  - (b) Considering the substantial differences in underlying concepts and principles between IPSAS Standards and GFSM 2014, and public sector financial reporting needs, the IPSASB decided not to pursue a GFSM 2014 aligned approach for:
    - (i) The presentation of assets and liabilities in the Statement of Financial Position. A primary reason is that the existing current/noncurrent approach (in IPSAS 1 and in IFRS 18)

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<sup>2</sup> This reflection regarding IPSAS Standards and GFSM 2014 were also articulated in the *Presentation of Financial Statements Project Brief* (September 2023) and the *Strengthening Linkages Between IPSAS Standards and the GFSM Project Brief* (March 2025). See also the IPSASB's Conceptual Framework Preface and Chapter 1, and its *Policy Paper Process for Considering GFS Reporting Guidelines During Development of IPSAS* for more information about the reporting frameworks and IPSASB considerations.

<sup>3</sup> The fundamental differences between IPSAS Standards and GFSM 2014 arise from underlying conceptual differences, which are expected to continue. In developing or revising IPSAS, the IPSASB has the opportunity to manage, and reduce unnecessary differences.

<sup>4</sup> See December 2023 [Agenda Item 9](#) for additional background and analysis. The IPSASB also noted in its project brief that this project does not include a comprehensive review of IPSAS 22, *Disclosure of Information about the General Government Sector*.

remains appropriate in addressing user needs and there is no current need to develop a new classification approach<sup>5</sup>; and

- (ii) The presentation of revenue and expenses recognized outside of surplus or deficit on the Statement of Changes in Net Assets/Equity. This is due to fundamental differences between IPSAS and GFSM 2014, including how GFSM 2014 defines “transactions” and “other economic flows” and sets recognition criteria.<sup>6</sup>

### *Relevant IPSAS Standards-GFSM 2014 Differences for the Statement of Financial Performance*

9. In March 2024 [Agenda Item 12.2.6](#), IPSASB members discussed several core elements of GFSM 2014, which differ from IPSAS Standards, that are relevant when considering the presentation of revenue and expenses recognized in surplus or deficit on the Statement of Financial Performance:
  - (a) **What constitutes revenue and expenses differs:** Under GFSM 2014, revenue and expenses are defined as transactions that increase or decrease the net worth, and transactions must be interactions between institutional units (i.e., different parties) by mutual agreement (i.e., entered with prior knowledge and by consent, and potentially required as a result of legal requirement and on an involuntary basis). Under IPSAS Standards, revenue and expenses are defined as increases or decreases in the net assets/equity position of the entity (i.e., no requirement to be the result of interactions with other parties by mutual agreement). Thus, some revenues and expenses recognized in surplus or deficit under IPSAS Standards are considered other economic flows (not transactions) under GFSM 2014; and
  - (b) **How revenue and expenses are identified and calculated differs:** Under GFSM 2014, revenue and expenses are distinguished by economic characteristics and recognized and measured based on their revenue or expense type. Under IPSAS Standards, revenue and expenses are recognized based on the terms of the arrangement from which it arises (e.g., considering enforceability, existence of a binding arrangement, and its rights and/or obligations). These differences can result in the same presentation but with different accounting outcomes.
10. It is also important to note that the Statement of Operations under GFSM 2014 is not equivalent to the Statement of Financial Performance under IPSAS Standards, as they present different information, serve different objectives, and are not directly comparable. These differences are a direct result of GFSM 2014 being a statistical framework: accordingly, the GFSM 2014 Statement of Operations presents transactions that change stock positions (i.e., balance sheet) throughout the reporting period, including acquisitions and disposals of nonfinancial assets and transactions in financial assets and liabilities, to obtain key macroeconomic balances. (See details in [Appendix 1](#))
11. In comparison, the IPSAS Statement of Financial Performance presents revenue and expenses recognized in surplus and deficit during the reporting period. Information about acquisitions and disposals in nonfinancial and financial assets and liabilities (broadly equivalent to information in

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<sup>5</sup> In comparison, a GFS-aligned approach would necessitate classification by financial/nonfinancial assets, and liabilities (see June 2024 [Agenda Item 8.2.3 Appendix B](#) for additional background). The IPSASB concluded that a financial/nonfinancial approach likely would not yield substantially different classification outcomes, but would likely pose substantial challenges in reaching intentional consensus to define and set criteria for financial vs. nonfinancial items thereby leading to divergence in practice.

<sup>6</sup> Generally, all revenue and expense items recognized outside surplus or deficit under IPSAS in Statement of Changes in Net Assets/Equity would be classified as “other economic flows” under GFS in their Statement of Other Economic Flows. However, the reverse is not always true. See March 2024 [Agenda Item 12.2.6](#) for additional background, and [Appendix 1](#) for a more in-depth overview of GFSM 2014 and differences between GFSM 2014 and IPSAS.

sections 2 and 3 of GFSM 2014 Statement of Operations) are presented in other IPSAS Statements and in the notes. Consistent with the IPSASB’s decision on this project to not relocate financial information between IPSAS statements and the implications of doing so in this instance, Staff and the Task Force concluded that sections 2 and 3 should not be considered in exploring GFSM 2014 alignment for the Statement of Financial Performance (see details in [Appendix 1](#)).

GFSM 2014	IPSAS 1	
Statement of Operations	Statement of Financial Performance	Differences
[1] Transactions affecting net worth <ul style="list-style-type: none"> <li>• Revenues</li> <li>• Expenses</li> </ul>	Items recognized in surplus or deficit <ul style="list-style-type: none"> <li>• Revenues</li> <li>• Expenses</li> </ul>	<b>Not fully equivalent with IPSAS:</b> see paragraph 9
[2] Transactions in nonfinancial assets Investments in nonfinancial assets	n/a	<b>No equivalent IPSAS section:</b> see paragraphs 10-11
[3] Transactions in financial assets and liabilities (“financing”) Net acquisition of financial assets Net incurrence of liabilities	n/a	

*Categorization Approach Aligned with GFSM 2014 for the Statement of Financial Performance*

12. Aligning with GFSM 2014 section 1 would entail requiring entities to present revenue items and expense items as two separate subsections, under a single Category, “Items recognized in surplus or deficit”, but with a new, specific set of classification and aggregation requirements based on the economic nature of each revenue and expense item. Staff and the Task Force assessed key benefits and drawbacks of this GFSM 2014 aligned approach as follows:

Benefits	Drawbacks
<ul style="list-style-type: none"> <li>✓ Results in an IPSAS-based Statement of Financial Performance which appears consistent with section 1 of GFSM 2014 Statement of Operations</li> <li>✓ Standardizes presentation and increases comparability across public sector entities</li> </ul>	<ul style="list-style-type: none"> <li>○ Requires substantial change in the underlying accounting principles to achieve alignment in substance (i.e., alignment in presentation of information does not equal alignment in substance of that information)</li> <li>○ Prescribes a specific and rigid classification structure suitable for national governments, that may not be applicable for all public sector entities as it does not acknowledge the diversity of the international public sector (where different entities may conduct different activities and programs)</li> <li>○ May be costly or onerous for entities (e.g., to change its reporting systems and processes to meet the new presentation requirements)</li> </ul>

13. Staff and the Task Force acknowledge that this approach can reduce differences between IPSAS Standards and GFSM 2014 by better aligning the presentation of revenue and expense items and introducing more consistency in presentation across public sector Statements of Financial Performance. However, the drawbacks of this approach are significant and are a direct result of the fundamental differences between IPSAS Standards and GFSM 2014 (in paragraphs 6-10, and [Appendix 1](#)), in particular:

- (a) Revising IPSAS presentation requirements to align with GFSM 2014 **creates the illusion of alignment, without achieving alignment in substance**. For example, “taxes” presented under this approach in IPSAS may appear to be the same as “taxes” presented in a GFSM 2014 Statement of Operations, but the amount and the principles applied to calculate that amount are fundamentally different in IPSAS Standards vs. GFSM 2014.<sup>7</sup> This could mislead users of financial statements and cause greater confusion; and
  - (b) A presentation approach aligned with GFSM 2014 **does not reflect the diversity of public sector entities preparing financial statements based on IPSAS**, compared to those preparing reports based on GFSM 2014. This is because GFSM 2014 is for fiscal analysis for national governments and its presentation requirements are a follow-through of that objective.
14. Ultimately, the different presentation requirements under current IPSAS Standards and GFSM 2014 reflect the fundamentally different objectives the two reporting guidelines are designed to serve (as outlined in paragraph 6). The fundamental differences between IPSAS Standards and GFSM 2014 lead to different recognition and measurement requirements, and leads to different presentation requirements, and aligning presentation requirements does not on its own resolve other differences.
15. Considering the balance of benefits and drawbacks to this approach, and that effective alignment with GFSM 2014 would require a substantial and comprehensive review of all IPSAS accounting principles which is outside the scope of this project, Staff and the Task Force are of the view that the IPSASB should not pursue a categorization approach aligned with GFSM 2014 for the IPSAS Statement of Financial Performance. This would be consistent with the IPSASB’s decisions to not pursue GFSM 2014 alignment for the presentation of other financial information (in paragraph 8).

*Next Steps*

16. If the IPSASB agrees with Staff and the Task Force recommendation, the IPSASB is advised to:
- (a) Finalize its Preliminary View regarding the categorization of revenue and expense items on the Statement of Financial Performance (which tentatively favored the categorization approach aligned with IFRS 18, with additional public sector guidance); and
  - (b) In the CP, present its rationale for not pursuing a GFSM 2014 aligned approach to categorization of revenue and expense items on the Statement of Financial Performance in [draft] Chapter 4, and articulate the broader, fundamental considerations regarding GFSM 2014 alignment as a whole for this project, in a new Appendix to accompany the CP.<sup>8</sup>

**Decision Required**

17. Does the IPSASB agree with the Staff and the Task Force’s [recommendations](#)?

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<sup>7</sup> Another example is the presentation of valuation changes in financial instruments. IPSAS requires certain valuation changes to be recognized in the Statement of Financial Performance and others in the Statement of Changes in Net Asset/Equity, but GFSM 2014 would require such valuation changes to be in its Statement of Other Economic Flows (as other economic flows) instead of the Statement of Operations (which only presents transactions as defined by GFSM 2014).

<sup>8</sup> Overall, this new Appendix would relate to the existing discussion in the [draft] CP regarding key drivers of the Presentation of Financial Statements project: can also provide broader considerations regarding IFRS alignment, to accompany the existing discussion on “key drivers”.

## **Appendix 1 – Additional Details: GFS, and its Statement of Operations**

This Appendix provides details regarding Government Finance Statistics Manual 2014 (GFSM 2014), its Statement of Operations, and how it differs from the IPSAS Statement of Financial Performance.

### **About the GFSM 2014 Statistical Framework**

1. There are fundamental differences (arising from underlying conceptual differences) between IPSAS and GFSM 2014. The [IPSAS Standards-GFSM 2014 Alignment Dashboard](#) (latest version presented in March 2025) provides an overview and information about the degree of alignment between IPSAS Standards and GFSM 2014.
2. GFSM 2014 is a statistical framework, drawn from the principles of the 2008 System of National Accounts (SNA), which fulfills a different purpose than IPSAS reporting. As a result, GFSM 2014 statements are structured differently from IPSAS financial statements. The Alignment Dashboard presents the following example to illustrate the significance of the difference: the GFSM 2014 *Statement of Other Economic Flows* is partly captured in the IPSAS *Statement of Financial Position*, *Statement of Changes in Net Assets/Equity* and *Statement of Financial Performance*.
3. As an integrated statistical framework, GFSM 2014 presents information based on economic flows that change stock positions (where stock positions represent economic value at a point in time, i.e., at opening and closing balance sheet). (GFSM 2014 paragraphs 3.1-3.3)
4. Flows (defined as monetary expressions of economic action and effects of events that change the economic value in the reporting period) explain all changes in stock positions, and are comprised of:
  - (a) **Transactions**, presented in the GFSM 2014 Statement of Operations, are economic flows that are interactions 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. This definition highlights that transactions must be between different units and must be entered into with prior knowledge and consent (GFSM 2014 paragraph 3.5); and
  - (b) **Other economic flows**, presented in the GFSM 2014 Statement of Other Economic Flows, are changes in the volume or value of assets or liabilities that do not result from transactions (i.e., do not meet one or more of the characteristics of transactions).<sup>9</sup> These are essentially all other flows, which are holding gains and losses and other changes in volume of assets and liabilities (GFSM 2014 paragraphs 3.31-3.32).

### **GFSM 2014 Statement of Operations and How it Differs from IPSAS**

5. In the context of the discussion and analysis for this paper, it should be noted that the GFSM 2014 Statement of Operations is similar, but not equivalent to, IPSAS Statement of Financial Performance.
6. While both the GFSM 2014 Statement of Operations and IPSAS Statement of Financial Performance are prepared using accrual basis, they present different information because of several fundamental differences. Not only does GFSM 2014 consider transactions and the presentation of information differently (as summarized above), but it also sets different requirements in the identification,

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<sup>9</sup> For example, a government that makes a unilateral change of employee benefits by the employer, is not a transaction according to GFSM 2014 (i.e., is an “other economic flow”) because it was not by mutual agreement.

recognition, and measurement of revenue and expenses (which are distinguished by economic characteristics and recognized by their economic type).

7. Considering the fundamental differences in identifying, analyzing, and recording transactions, this impairs the comparability of the two Statements, which cannot be simply rectified through a change in presentation requirements. This emphasizes the usefulness of reconciliations in accordance with paragraphs 45-46 of IPSAS 22, *Disclosure of Information about the General Government Sector*, and similar guidance developed by national standard setters such as Australian Accounting Standards Board's AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

8. This Table is an excerpt from Chapter 4 of GFSM 2014, which illustrates the Statement of Operations. The Statement presents all transactions that change stock positions (i.e., balance sheet) throughout the reporting period, including acquisitions and disposals of nonfinancial assets, and consumption of fixed capital, to obtain the key macroeconomic balance of net lending (+)/net borrowing (-).<sup>10</sup>

9. This Statement presents transactions in three Sections, in a prescriptive format and structure:

- (a) **Transactions affecting net worth**, comprised of revenues (increases to net worth resulting from a transaction) and expenses (decreases to net worth resulting from a transaction);
- (b) **Transactions in nonfinancial assets**, reflecting changes in a government's net/gross investment in nonfinancial assets; and
- (c) **Transactions in financial assets and liabilities** ("Financing"), reflecting net acquisition of financial assets, and net incurrence of liabilities).

10. GFSM 2014 provides very detailed requirements related to the classification and aggregation of revenue and expense items in section 1 of the Statement of Operations:

Table 4.1 Statement of Operations	
<b>Transactions Affecting Net Worth:</b>	
<b>1</b>	<b>Revenue</b>
11	Taxes
12	Social contributions [GFS]
13	Grants
14	Other revenue
<b>2</b>	<b>Expense</b>
21	Compensation of employees [GFS]
22	Use of goods and services
23	Consumption of fixed capital [GFS]
24	Interest [GFS]
25	Subsidies
26	Grants
27	Social benefits [GFS]
28	Other expense
<b>NOB/GOB</b>	<b>Net/gross operating balance (1-2)<sup>1</sup></b>
<b>Transactions in Nonfinancial Assets:</b>	
<b>31</b>	<b>Net/gross investment in nonfinancial assets<sup>2</sup></b>
311	Fixed assets
312	Inventories
313	Valuables
314	Nonproduced assets
<b>2M</b>	<b>Expenditure (2+31)</b>
<b>NLB</b>	<b>Net lending (+) / Net borrowing (-) [GFS] (1-2-31 = 1-2M = 32-33)</b>
<b>Transactions in Financial Assets and Liabilities (Financing):</b>	
<b>32</b>	<b>Net acquisition of financial assets</b>
321	Domestic <sup>3</sup>
322	External <sup>3</sup>
<b>33</b>	<b>Net incurrence of liabilities</b>
331	Domestic <sup>3</sup>
332	External <sup>3</sup>

<sup>1</sup>The net operating balance equals revenue minus expense. The gross operating balance equals revenue minus expense other than consumption of fixed capital.

<sup>2</sup>The net investment in nonfinancial assets equals acquisitions minus disposals minus consumption of fixed capital. The gross investment in nonfinancial assets equals acquisitions minus disposals.

<sup>3</sup>Classified by instrument and/or sector of the counterparty (see Tables 9.1 and 9.2).

<sup>10</sup> The net lending/net borrowing balance indicates the extent to which government is either putting financial resources at the disposal of other sectors in the economy or abroad, or utilizing the financial resources generated by other sectors in the economy or from abroad. It may therefore be viewed as an indicator of the financial impact of government activity on the rest of the economy and the rest of the world.

- (a) Revenue items must be classified, aggregated, and presented in four economic types (classification code 1, with subclassifications): taxes, social contributions, grants, and other revenue.
  - (b) Expense items must be classified, aggregated, and presented in eight economic types (classification code 2, with subclassifications): compensation of employees, use of goods and services, consumption of fixed capital, interest, subsidies, grants, social benefits, and other expense.
11. Considering the definition of “transaction” under GFS, this means that transactions in section 2 (nonfinancial assets) and section 3 (financial assets and liabilities) include amounts related to acquisitions, consumptions, disposals, and other changes in the value of the assets and liabilities for which there is no equivalent in the IPSAS Statement of Financial Performance. Rather, this information is presented in other IPSAS Statements (e.g., Cash Flows) and in the notes.
12. Staff and the Task Force are of the view that the IPSASB should not consider introducing new sections into the Statement of Financial Performance to fully align with GFSM 2014 Statement of Operations because:
- (a) The IPSASB previously decided not to relocate financial information between IPSAS Statements. Specifically, the IPSASB decided not to relocate revenue and expense items outside of surplus or deficit directly in net assets/equity, currently presented in the Statement of Changes in Net Assets/Equity, onto a different IPSAS Statement;
  - (b) Doing so would broaden the purpose and objective of this Statement. This may cause confusion for users of financial statements as to whether the financial information presented represents resources currently available to the entity (a similar challenge the IPSASB noted when considering whether to relocate revenue and expense items outside of surplus or deficit onto the Statement of Financial Performance); and
  - (c) While information about capital investments (currently provided through other IPSAS Financial Statements or notes) can be useful to provide an indication of the entity’s investment in its future ability to deliver on and achieve its service delivery objectives, introducing new sections comparable to GFSM 2014’s section 2 and 3 could be costly or burdensome for reporting entities and may introduce other challenges. The benefits can be achieved through other reporting or disclosure requirements, per current IPSAS requirements.

13. This table presents a summary of differences between information presented on the two Statements:

GFSM 2014	IPSAS 1	
Statement of Operations	Statement of Financial Performance	Explanation of differences
Transactions affecting net worth (Revenues and expenses)	Revenues and expenses, not fully equivalent	<p>This GFSM section appears similar, but is <u>not equivalent</u>, due to fundamental differences between GFSM 2014 and IPSAS:</p> <ul style="list-style-type: none"> <li>• Under GFSM 2014, revenue and expenses are defined as transactions that increase or decrease the net worth, and transactions must be interactions between institutional units (i.e., different parties) by mutual agreement (i.e., entered with prior knowledge and by consent). Revenue and expenses are distinguished by economic characteristics and recognized and measured based on their revenue or expense type.</li> <li>• Under IPSAS, revenue and expenses are defined as increases or decreases in the net assets/equity position of the entity (i.e., no requirement to be the result of interactions with other parties by mutual agreement). Revenue and expenses are recognized based on the terms of the arrangement from which it arises (e.g., considering enforceability, existence of a binding arrangement, and its rights and/or obligations).</li> </ul> <p>The above differences can result in different presentation (different Statements) in some cases, but result in the same presentation with different accounting outcomes in other cases.</p>
Transactions in nonfinancial assets	n/a – no equivalent section	<p>This GFSM section comprises transactions that change a government’s investment in nonfinancial assets<sup>11</sup> (fixed assets, inventories, valuables, and non-produced assets) through acquisitions and disposals.</p> <p>IPSAS <u>does not</u> have an equivalent section in its Statement of Financial Performance: this information (about the entity’s capital transactions, such as acquisitions and disposals of fixed assets, inventories, and other nonfinancial assets) is presented in other IPSAS statements and notes.</p>
Transactions in financial assets and liabilities (“financing”)	n/a – no equivalent section	<p>This GFSM section comprises transactions that change a government’s holdings of financial assets (financial claims and gold bullion held as reserve assets) and liabilities (obligations to pay a creditor through legally binding contracts or force of law, and transactions are classified in different ways, such as by residency (domestic or external), financial instrument type, counterparty sector, or purpose (policy or liquidity management).</p> <p>IPSAS <u>does not</u> have an equivalent section in its Statement of Financial Performance: this information (about the entity’s transactions in financial assets and liabilities (for example, acquisitions and incurrences by financial instrument type) is presented in other IPSAS statements and notes.</p>

<sup>11</sup> The net investment in nonfinancial assets equals acquisitions minus disposals minus consumption of fixed capital. The gross investment in nonfinancial assets equals acquisitions minus disposals.

## **Impact of Main Business Activities on the Categorization of Revenue and Expenses**

### **Question**

1. Does the IPSASB agree with the Staff and the Task Force's recommendations in paragraph 2?

### **Recommendations**

2. Staff and the Task Force recommend that, if the IPSASB decides to align with IFRS 18 *Presentation and Disclosure in Financial Statements* categorization requirements, it should also incorporate IFRS 18 guidance regarding main business activities (with adaptations listed in paragraph 13 for the public sector), and to reflect this decision in [draft] Chapter 4 of the Consultation Paper (CP).

### **Background**

3. In developing its CP for its Presentation of Financial Statements project, the IPSASB has taken the strategic approach of aligning with IFRS 18 where appropriate for the public sector, and is currently considering presentation requirements for the Statement of Financial Performance. The IPSASB agreed to require entities to categorize revenue and expenses in this Statement and considered whether to align with IFRS 18 categorization requirements or to take another approach.
4. In March 2025, IPSASB members tentatively favored categorization aligned with IFRS 18, supplemented by additional public sector guidance (subject to further analysis of a potential approach aligned with GFSM 2014, which is addressed separately in [Agenda Item 11.2.1](#)). Given the IPSASB's emerging preference for an IFRS-aligned categorization approach, Staff and the Task Force propose that the IPSASB also consider whether, and how, IFRS 18's concept and guidance regarding main business activities is relevant or applicable in the public sector.

### **Analysis**

#### *Overview of IFRS 18 Guidance: Main Business Activities*

5. IFRS 18 introduced new requirements for entities to classify their income and expenses on the Statement of Profit or Loss, into five specific categories (of which Operating, Investing, Financing are new categories). In applying IFRS 18, entities classify income and expenses into the Investing, Financing, Income taxes, and Discontinued operations categories, and classify all remaining income and expenses into the Operating category.<sup>12</sup> This approach reflected two key views by the IASB:
  - (a) An entity's operations include, but are not limited to, its main business activities (of which an entity may have one or more); and
  - (b) An entity's operating performance is a focus area for users of its financial statements to support their analysis and decision-making.
6. In developing IFRS 18, the IASB acknowledged that additional requirements were necessary to ensure that all entities applying IFRS 18 would be able to present key measures of its operating performance in its Operating category. For example, requiring a bank (that provides financing to customers as its main business activity) to classify interest income into the financing category would

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<sup>12</sup> In essence, the operating category is the "default" category, as all income and expenses included in profit or loss that is not related to the other categories arise from an entity's operation. See Appendix 1 of [December 2024 Agenda Item 7.2.2](#) for additional details regarding IFRS 18 categorization requirements.

not appropriately reflect the bank's operating performance nor provide useful information for its financial statement users. Thus, the IASB included additional guidance for entities with two specified main business activities to categorize their income and expenses in a way that appropriately reflects their operations and provides useful information for its financial statement users:

- (a) Investing in particular types of assets ("investing in assets") – to require entities with this main business activity to classify certain income and expenses into the Operating category, that would otherwise have been classified into the Investing category; or
  - (b) Providing financing to customers – to require entities with this main business activity to classify certain income and expenses into the Operating category, that would otherwise have been classified into the Financing category.
7. The IASB does not define 'specified main business activities'; rather, it lists the above two main business activities as the specified main business activities subject to the additional presentation requirements. See [Appendix 1](#) for more details and the IASB's rationale regarding this guidance.

*Analysis Approach*

8. In March 2025, Staff advised that if the IPSASB decides to require categorization aligned with IFRS 18, it should also consider IFRS 18 requirements related to main business activities. To support the IPSASB in determining whether, and how, the concept and guidance on main business activities is relevant or applicable in the public sector, Staff and the Task Force considered:
- (a) *Are there public sector entities that provide these 'specified main business activities'?* – Yes, see paragraphs 9-10.
  - (b) *Would similar guidance result in more useful financial information for the users of the entity's financial statements?* – Yes, see paragraphs 11-12.
  - (c) *How can IFRS 18 guidance be adapted for the public sector?* – See paragraphs 13-14.

*[A] Are there public sector entities that provide these specified 'main business activities'?*

9. IFRS 18 authoritative guidance helps entities determine if they engage in the two specified main business activities and includes examples of entities that may invest in assets or provide financing to customers as a main business activity (such as investment entities, insurers, banks, and lessors).
10. As in the private sector, public sector entities do engage in similar activities to achieve specific service delivery objectives or policy goals, and the IPSAS Standards already consider and provide relevant guidance to account for such transactions:
- (a) Investing in assets as a 'main business activity':
    - (i) As presented in IPSAS 16, *Investment Property*, there are a number of circumstances in which public sector entities may hold property to earn rental or for capital appreciation, for example to manage a government's property portfolio on a commercial basis, or to use the funds generated to finance other service delivery activities; and
    - (ii) As articulated in IPSAS 35, *Consolidated Financial Statements*, it is common in the public sector for an investment entity to be formed by, or for, a single controlling entity that represents or supports the interests of a wider group of investors (such as pension funds, or government investment funds or trust); and

- (b) Providing financing to other parties as a 'main business activity':
  - (i) As presented in IPSAS 41, *Financial Instruments*, entities may enter into lending agreements or grant concessionary loans to students, small businesses, or other government entities to support various government-assisted programs or achieve specific objectives or policy goals; and
  - (ii) As noted in IPSAS 43, *Leases* and in the IPSASB's development of guidance for other lease-type arrangements, public sector entities may provide financing or enter into concessionary leases, to support affordable housing initiatives and achieve specific service delivery objectives.

*[B] Would similar guidance result in more useful financial information for the users of the entity's financial statements?*

- 11. Staff and the Task Force are of the view that IFRS 18 guidance regarding main business activities would be useful to adapt for the public sector, because:
  - (a) Public sector entities also invest in assets or provide financing to other parties as 'main business activities' to achieve specific service delivery objective or policy goals. For such entities, these activities are part of their operations (as presented in paragraphs 9-10); and
  - (b) For public sector entities that engage in such transactions, requiring them to present certain revenue and expenses in the Operating category (when they would otherwise have been in Investing or Financing) would more appropriately represent their operations in the reporting period to achieve its service delivery objectives (such as acquisition and use of resources and recovery of costs of service delivery). It would also present more useful information for their financial statement users for analysis and decision-making purposes (similar to the IASB's rationale, in paragraph 6 and [Appendix 1](#)).
- 12. If the IPSASB does not include similar guidance as IFRS 18 regarding main business activities, there is a risk that:
  - (a) Revenue and expense items are not classified in a category that appropriately reflects the purpose of the underlying transaction – for example, without the similar guidance, a public sector entity with a service delivery objective to help citizens access affordable homes, and that provides funding and financial assistance as a 'main business activity' would classify revenue and expenses from its financing transactions in the Financing category, even though these revenue and expenses are an indicator of the entity's operations and overall performance towards its service delivery objectives. This may also result in limited, and potentially not useful, financial performance information in the Operating category.
  - (b) Financial statement users may not have sufficient or appropriate information to support their analysis and decision-making – following the same example, the users of the entity's financial statements may not be able to differentiate which revenue and expenses in the Financing category relate to the entity's activities to achieve its service delivery objective, and which are related to the effects of financing for the entity's own operations. This does not provide useful information and obscures the users' understanding of the entity's effectiveness in achieving service delivery objectives.

*[C] How can IFRS 18 guidance be adapted for the public sector?*

13. While the IFRS 18 guidance regarding main business activities is useful, it should be adapted for the public sector as follows:
  - (a) **Use the term ‘main operating activities’**, instead of main business activities, as ‘operating’ is more reflective of the public sector, acknowledging the broad range of activities conducted in an public sector entity’s operations;
  - (b) **Use public sector terminology**, consistent with other IPSAS Standards, such as ‘revenue and expenses’ and ‘other parties’, instead of IFRS’ ‘income and expenses’ and ‘customers’; and
  - (c) **Add public sector examples**, including referencing public sector entities that invest in assets or provide financing to other parties as main operating activities, to help entities identify whether they have a specified main operating activity which warrants different classification of specific revenue or expense items.
14. As in the private sector, public sector entities may have one or more main operating activities. Staff and the Task Force considered whether any other main operating activities in the public sector should be a specified main operating activity (similar to “investing in assets” or “providing financing to other parties”) to warrant additional guidance for categorizing related revenue and expenses, to better reflect its characteristics for financial statement users. No additional specified main operating activities were identified that would also warrant additional guidance or different classification requirements.

*Next Steps*

15. Based on the analysis above, Staff and the Task Force propose that, if the IPSASB decides to align with IFRS 18 categorization requirements, it should also incorporate IFRS 18 guidance regarding main business activities (with adaptations listed in paragraph 13 for the public sector).
16. If the IPSASB agrees with this proposal, the IPSASB is also advised to reflect its view that an entity should consider its ‘main operating activities’ when classifying its revenue and expenses into categories on the Statement of Financial Performance, as proposed in [draft] Chapter 4 of the CP.
17. Subject to the IPSASB’s decisions on other Agenda Papers, Staff will also reflect decisions in draft guidance for the Illustrative Exposure Draft.

**Decision Required**

18. Does the IPSASB agree with the Staff and the Task Force’s [recommendations](#)?

**Appendix 1 – Additional Details: IFRS 18 Guidance**

This Appendix summarizes IFRS 18 *Presentation and Disclosure in Financial Statements* guidance that is relevant to the analysis in this paper, and is provided for reference purposes only.

1. IFRS 18 provides comprehensive guidance regarding the categorization of income and expense items on the Statement of Profit or Loss. IFRS 18 requires entities to classify these income and expense items into five categories. Presentation in this consistent structure supports analyses and comparisons and improves how entities communicate financial performance to their financial statement users to support better decision making. Appendix 1 of [December 2024 Agenda Item 7.2.2](#) provided a high-level summary of the key categorization requirements.
2. In applying the categorization requirements, IFRS 18 also requires entities to consider whether they have certain main business activities (specified in IFRS 18). Entities with specific main business activities are required to apply additional requirements when categorizing their income and expenses items. Specifically, entities with specified main business activities must classify certain income and expense items into the Operating category, that would otherwise have been classified into the Investing or Financing category if the activity were *not* a main business activity.<sup>13</sup> The table below provides an overview of relevant guidance.

IFRS 18 Paragraphs		
Core Text	Application Guidance	Purpose of Guidance
<b>Entities with specified main business activities</b>		
49	B30-37, B39-40	<p>Requires a reporting entity to consider whether it has a 'specified main business activity', which is a main business activity of:</p> <ol style="list-style-type: none"> <li>1. Investing in particular assets ("investing in assets") OR</li> <li>2. Providing financing to customers.</li> </ol> <p>Indicates that a reporting entity, in making this assessment:</p> <ul style="list-style-type: none"> <li>• Shall use judgment based on evidence (i.e., facts and circumstances), as a matter of fact and not an assertion.</li> <li>• May result in conclusion that the entity has more than one main business activity.</li> <li>• Provides application guidance to support an entity's assessment (e.g., whether it is used as an important indicator of operating performance internally or externally)</li> <li>• Shall be made for the reporting entity as a whole.</li> </ul> <p>Provides examples of entities that have such specified main business activities:</p> <ul style="list-style-type: none"> <li>• Entities that invest in assets as a main business activity include: investment entities (as defined in IFRS 10), investment property companies, insurers.</li> <li>• Entities that provide financing to customers as a main business activity include: banks and other lending institutions, entities that provide financing to customers to enable those customers to buy the entity's products, and lessors that provide financing to customers in finance leases.</li> </ul>
50-51	B41	<p>Indicates that an entity that has a 'specified main business activity' will need to:</p> <ul style="list-style-type: none"> <li>• Classify certain income and expenses differently and</li> <li>• Disclose that it invests in assets or provides financing to customers as a main business activity, and any changes in its assessment (note: changes in assessment are applied prospectively. Unless impractical, the entity should disclose the fact, and information about the effects of the change).</li> </ul>

<sup>13</sup> Conducting specific main business activities may also influence the entity's decisions regarding other presentation matters (e.g., expenses by nature or function, management defined performance measures, disclosures), which are not presented in this paper.

IFRS 18 Paragraphs		
Core Text	Application Guidance	Purpose of Guidance
<b>Additional categorization requirements for entities with specified main business activities</b>		
<b>Investing category (IFRS 18 paragraphs 53-54) – guidance for entities with specified main business activities</b>		
55	B38, B43, B44	<p>If an entity invests in <b>investments in associates, joint ventures, and unconsolidated subsidiaries</b> as a main business activity, it shall classify:</p> <ul style="list-style-type: none"> <li>Income and expenses from those assets accounted for applying the equity method, into the <i>investing</i> category</li> <li>Income and expenses from those assets <u>not</u> accounted for applying the equity method into the <i>operating</i> category</li> </ul> <p>Requires entities to assess by individual asset or group of assets with shared characteristics.</p> <p>Requires entities preparing separate financial statements as specified in IAS 27 and performs assessment for groups of assets, to use groups of assets consistently with other determinations in IAS 27.</p>
56-57	-	<p>If an entity invests in <b>cash and cash equivalents</b>, it will first consider its main business activity, to determine how to classify income and expenses from cash and cash equivalents:</p> <ul style="list-style-type: none"> <li>If the entity invests in assets that generate a return individually or largely independently of other resources, classify the income and expenses from cash and cash equivalents into the <i>operating</i> category.</li> <li>If the entity provides financing to customers, classify the income and expenses from cash and cash equivalents:                             <ul style="list-style-type: none"> <li>That relate to that activity (providing financing to customers) in the <i>operating</i> category; and</li> <li>That do <u>not</u> relate to that activity (providing financing to customers) in the <i>operating or financing</i> category (i.e., accounting policy choice consistent with accounting policy for income and expenses from liabilities).</li> </ul> </li> </ul> <p>However, if an entity cannot distinguish whether it relates, it should classify income and expenses from all cash and cash equivalents in <i>operating</i>.</p> <ul style="list-style-type: none"> <li>Otherwise, classify the income and expenses in the <i>investing</i> category.</li> </ul>
58	-	<p>If an entity invests in <b>other assets that generate a return individually or largely independently of the entity's other resources</b> as a main business activity, it shall classify income and expenses listed in IFRS 18.54 into the <i>operating</i> category.</p>
<b>Financing category (IFRS 18 paragraphs 59-64) – guidance for entities with specified main business activities</b>		
65-66	B59	<p>If an entity <b>provides financing to customers</b> as a main business activity, it will first consider whether the liability does or does not involve only the raising of finance, to determine how to classify income and expenses from those liabilities:</p> <ul style="list-style-type: none"> <li>If the entity incurred the liability in a transaction that involves only the raising of finance, classify the income and expenses from these liabilities:                             <ul style="list-style-type: none"> <li>That relate to its main business activity (providing financing to customers) in the <i>operating</i> category (including derivatives, but not hybrid contracts); and</li> <li>That do <u>not</u> relate to its main business activity (providing financing to customers) in <i>operating or financing</i> category (i.e., accounting policy choice consistent with accounting policy for income and expenses from liabilities).</li> </ul> </li> </ul> <p>However, if an entity cannot distinguish whether it relates, it should classify income and expenses from all such liabilities in <i>operating</i>.</p> <ul style="list-style-type: none"> <li>If the entity incurred the liability in a transaction that does <u>not</u> involve only the raising of finance (e.g., lease liabilities or pension liabilities), classify the income and expenses from these liabilities:                             <ul style="list-style-type: none"> <li>Income and expenses listed in IFRS 18.61 (Interest income and expenses, and income and expense from changes in interest rates identified in applying other IPSAS) in the <i>financing</i> category; and</li> <li>Income and expenses not listed in IFRS 18.61 into the <i>operating</i> category.</li> </ul> </li> </ul>

3. In making its decision to add guidance to help entities consider their main business activities when classifying income and expenses into categories, the IASB shared in its Basis for Conclusions:
- (a) **Considers an entity's operations** (IFRS 18, BC89-BC90, BC 94, BC97): The operating category is the "default" category, and an entity's operations include, but are not limited to, an entity's main business activities. The IASB's view is that all income and expenses included in profit or loss, other than those related to investing, financing, income taxes, and discontinued operations, arise from an entity's operations. The IASB acknowledged that classifying income or expenses related to specified main business activities (investing in assets or providing financing to customers) in the investing or financing categories would prevent an entity from presenting key measures of its operating performance in the operating category. The IASB noted that entities that invest in assets as a main business activity, and users of their financial statements, use investment returns as an important indicator of operating performance. Similarly, entities that provide financing to customers as a main business activity, and users of their financial statements, use interest revenue and interest expense related to this activity (and the net) as an important indicator of operating performance.
  - (b) **Reflects user needs** (IFRS 18, BC100, BC115): These unique requirements for such entities is in direct response to constituent feedback, and what presentation of information would provide more useful information to users of financial statements. The IASB decided to require entities with specified main business activities to disclose that fact, to help users of financial statements understand the structure of an entity's statement of profit or loss. The IASB also decided to require certain income and expenses from specific investments to be classified in the investing category to better align with the way users of financial statements use information to analyze such investments. The IASB included several flowcharts in IFRS 18 Illustrative Examples to help entities categorize its income and expenses and consider whether a specified main business activity changes the categorization.
  - (c) **Assessed at the reporting entity level** (IFRS 18, BC98): The IASB acknowledged that assessing at reporting level may mean that the subsidiary's classification of income and expenses in its statement of profit or loss could differ from that of the group. The IASB decided that classification differences between the group and its subsidiary (when they occur) appropriately reflect the differences between their main business activities. The IASB concluded that appropriately reflecting the main business activities of each reporting entity outweighs the costs an entity might incur to make consolidation adjustments. Similar considerations apply if a parent entity prepares separate and consolidated statements.

## **Finalize Views on the Presentation of Totals and Subtotals**

### **Question**

1. Does the IPSASB agree with Staff's recommendation in paragraph 2?

### **Recommendations**

2. Staff recommend that:
  - (a) If the IPSASB decides to align with IFRS 18 *Presentation and Disclosures in Financial Statements* categorization requirements for revenue and expense items on the Statement of Financial Performance, with additional public sector guidance; then
  - (b) The IPSASB should also require entities to present totals and subtotals, by adapting IFRS 18 guidance for the public sector as proposed in paragraph 10, and present this as a Preliminary View, with its rationale, in [draft] Chapter 4 of the Consultation Paper (CP).

### **Background**

3. In December 2024, the IPSASB began detailed discussions on presentation requirements for the Statement of Financial Performance. The IPSASB noted that IFRS 18 introduces new requirements for private sector entities to *categorize incomes and expenses* and *present specific totals and subtotals* to create a more formal consistent structure for the Statement. This project is an opportunity for the IPSASB to leverage IFRS 18 requirements to provide similar benefits in the public sector and maintain alignment where appropriate.
4. Since then, the IPSASB has agreed to require entities to categorize revenue and expense items in the Statement of Financial Performance and members tentatively favored aligning with IFRS 18 categorization with additional public sector specific guidance. Given this emerging preference, the IPSASB should revisit presentation requirements regarding totals and subtotals to complement and enhance the benefits from introducing categorization.

### **Analysis**

#### *Current IPSAS Requirements*

5. IPSAS 1, *Presentation of Financial Statements* provides minimum requirements regarding the presentation of totals and subtotals on the face of the Statement of Financial Performance. Specifically, public sector entities are:
  - (a) Required to present the surplus and deficit total for the reporting period; and
  - (b) Allowed to present additional subtotals, if it is relevant to the understanding of the entity's financial performance.

#### *Whether to Revise IPSAS Requirements*

6. Enhancing IPSAS requirements regarding the presentation of totals and subtotals would complement new requirements to categorize revenue and expenses, to introduce a more formal and consistent structure in the Statement of Financial Performance and provide a meaningful understanding of the reporting entity's financial performance. These totals and subtotals can serve as a starting point for analysis to support the information needs of financial statement users and enable them to more consistently and objectively compare information.

7. When revising presentation requirements for the Statement of Financial Performance, the IPSASB has explored different approaches: aligning with IFRS, aligning with Government Finance Statistics Manual 2014 (GFSM 2014), or developing a bespoke public sector approach. Analysis and discussions to date have favored aligning with IFRS, with public sector adaptations:
  - (a) IPSASB members tentatively prefer an IFRS aligned approach to categorizing revenue and expense items in this Statement, with additional public sector specific guidance;
  - (b) [Agenda Item 11.2.1](#) recommends that the IPSASB not pursue a GFSM 2014 aligned approach due to the fundamental differences between the objectives and requirements between the two reporting frameworks; and
  - (c) After research and deliberations, the IPSASB has not developed a viable set of public sector specific categories to use instead of IFRS 18 categories.
8. The presentation of totals and subtotals directly corresponds to the presentation of revenue and expense items in categories. Thus, the analysis in this paper focuses primarily on an IFRS aligned approach (and whether and how to adapt it for the public sector) to complement these other decisions and proposals. [Appendix 1](#) shares Staff's analysis regarding the other approaches explored.

#### *Potential New IPSAS Requirements*

9. In December 2024 [Agenda Item 7.2.3](#), Staff first shared its detailed analysis on presenting totals and subtotals on the Statement of Financial Performance. This analysis noted that:
  - (a) Current IPSAS 1 requirements are aligned with IAS 1 *Presentation of Financial Statements*;
  - (b) Both the IPSASB and IASB are of the view that the objective and role of financial statements are to provide financial information that is useful to financial statement users in a structured format. The lack of defined subtotals in IPSAS 1 and IAS 1 has led to similar challenges, as the diversity of reporting impeded the usefulness, understandability, and comparability of information in the Statement of Financial Performance / Profit or Loss;
  - (c) IFRS 18, which replaced IAS 1, tackles these challenges by introducing new subtotals which, together with the new categorization requirements, creates a more formal and consistent structure for the Statement, reducing diversity in reporting and improving communications, thereby helping users to better understand, analyze and compare financial information; and
  - (d) The same potential for improvement also exists in the public sector, as the requirement to present specific totals and subtotals would create more structure and enhance the usefulness of information presented to help financial statement users better understand and analyze, and more consistently and objectively compare, financial performance information. This analysis was consistent with preliminary views from breakout group participants from December 2023.
10. Based on that analysis, Staff propose the IPSASB:
  - (a) Retain the existing IPSAS 1 requirement for entities to present the **'surplus or deficit' total**, as it remains a useful and fundamental metric for a financial statement user to understand the entity's overall financial performance;
  - (b) Introduce a new requirement for entities to present these subtotals to provide users with comparable measures of financial performance as starting points for their analysis:

- (i) **‘Operating surplus or deficit’ subtotal**, which is important and useful to give users an understanding of the current level of revenues and whether it is sufficient to maintain the volume and quality of services currently provided, and to achieve future service delivery activities and objectives; and
- (ii) **‘Surplus or deficit before financing’ subtotal**, which is an important metric to communicate performance before financing considerations and adapts the IFRS 18 approach to reflect the limited prevalence of income taxes in the public sector.

**Illustrative Example of the Statement of Financial Performance with the Proposed Totals and Subtotals**

<b>Public Sector Entity</b>		
<i>For the year ended [MM] [DD] [YYYY]</i>		
Taxes revenue	500	Operating
Other revenue	80	
Wages expenses	(200)	
Operating expenses	(300)	
Other expenses	(58)	
<b>Operating surplus or deficit</b>	<b>22</b>	
Investment income	15	Investing
Investment expenses	(13)	
<b>Surplus or deficit before financing</b>	<b>24</b>	
Interest expense on loan	(21)	Financing
<b>Surplus or deficit</b>	<b>3</b>	

- (c) Continue to permit entities to present additional subtotals, as financial information needs may vary within and across jurisdictions in the international public sector. Additional subtotals should only be permitted if they provide a useful summary that is comprised of amounts recognized and measured in accordance with IPSAS Standards, compatible with the structure of the Statement of Financial Performance, consistent from period to period, and displayed no more prominently than the required totals and subtotals listed above.
11. These proposals are consistent with IFRS 18 requirements on totals and subtotals (and adapted for the public sector) and would enhance the benefits of categorizing revenue and expense items on the Statement of Financial Performance in alignment with IFRS 18 (supplemented by additional public sector guidance) and would provide useful starting points for further analysis. December 2024 [Agenda Item 7.2.3](#) and its Appendix 1 provide further details.

*Finalizing Views on the Presentation of Totals and Subtotals*

- 12. In March 2025, IPSASB members tentatively favored requiring entities to categorize revenue and expense items on the Statement of Financial Performance in alignment with IFRS 18, supplemented by additional public sector guidance.
- 13. If the IPSASB confirms this as its Preliminary View, then Staff recommend the IPSASB also require entities to present totals and subtotals in alignment with IFRS 18, with adaptations for the public sector, as proposed in paragraph 10. Together, categorization and presentation of totals and subtotals based on the categorization would amplify the benefits of a more coherent and comparable presentation of information for public sector financial statement users.
- 14. If the IPSASB agrees, the IPSASB is also advised to reflect this as a Preliminary View regarding the presentation of totals and subtotals on the Statement of Financial Performance, as proposed in [draft] Chapter 4 of the CP. Subject to the IPSASB’s decisions on other Agenda Papers, Staff will also reflect decisions in draft guidance for the Illustrative Exposure Draft.

**Decision Required**

15. Does the IPSASB agree with the Staff [recommendations](#)?

## **Appendix 1 – Additional Analysis: Other Approaches Explored**

This Appendix provides Staff's consideration and analysis of other approaches to total or subtotal requirements on the Statement of Financial Performance.

1. When revising presentation requirements for the Statement of Financial Performance, the IPSASB has explored different approaches: aligning with IFRS, aligning with Government Finance Statistics Manual 2014 (GFSM 2014), or developing a bespoke public sector approach. Analysis and discussions to date have favored aligning with IFRS, with public sector adaptations:
  - (a) IPSASB members tentatively prefer an IFRS aligned approach to categorizing revenue and expense items in this Statement, with additional public sector specific guidance;
  - (b) [Agenda Item 11.2.1](#) recommends that the IPSASB not pursue a GFSM 2014 aligned approach due to the fundamental differences between the objectives and requirements between the two reporting frameworks; and
  - (c) After research and deliberations, the IPSASB has not developed a viable set of public sector specific categories to use instead of IFRS 18 categories.
2. The analysis in the core paper focuses primarily on an IFRS aligned approach (and whether and how to adapt it for the public sector) to complement these other decisions and proposals. This Appendix provides Staff's analysis of the potential GFSM 2014 and public-sector-specific approaches, and Staff's rationale for not recommending these approaches.

### *GFSM 2014 Aligned Approach*

3. In response to the IPSASB's March 2025 instruction, Staff considered and presented a GFSM 2014 aligned approach to categorizing revenue and expense items recognized in the Statement of Financial Performance, in [Agenda Item 11.2.1](#). Requirements regarding totals and subtotals would need to complement the potential categorization approach identified in that paper.<sup>14</sup>
4. Presentation of totals, subtotals, and balances under GFSM 2014 is a direct result of the rigid structure and classification criteria required. Under a GFSM 2014 aligned approach, the IPSASB would continue to require entities to present '**surplus or deficit**' as a total – however, this would not be the same as GFSM 2014's "net operating balance" due to the fundamental differences in the definition and recognition and measurement criteria for revenue and expense items between IPSAS Standards and GFSM 2014. The analysis in [Agenda Item 11.2.1](#) summarized these fundamental differences, including the different underlying objectives and principles, which limit the extent to which full alignment can be achieved.
5. Given these fundamental differences, the challenges presented in [Agenda Item 11.2.1](#) (particularly around creating the illusion of alignment without achieving alignment in substance) also exist here. Thus, Staff do not recommend further exploration of alignment with GFSM 2014 for this presentation requirement.

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<sup>14</sup> As presented in [Agenda Item 11.2.1](#), the GFSM 2014 Statement of Operations also includes two other sections, related to transactions in nonfinancial assets and transactions in financial assets and liabilities. Information about acquisitions and disposals in nonfinancial and financial assets and liabilities (broadly equivalent to information in sections 2 and 3 of GFSM 2014 Statement of Operations) are presented in other IPSAS Statements and in the notes. Consistent with the IPSASB's decision on this project to not relocate financial information between IPSAS statements and the implications of doing so in this instance, Staff have not explored alignment with subtotals related to sections 2 and 3 of GFSM 2014 Statement of Operations.

*Public-Sector-Specific Approach*

6. The IPSASB contemplated whether there is a public-sector-specific set of categories that could be used, in lieu of, or as an adaptation of, IFRS 18 categories. Based on research and deliberations, the IPSASB acknowledged overarching challenges in developing a conceptually sound and practical alternative that could receive international consensus and avoid confusion caused by diverging from IFRS despite the strong alignment between IPSAS Standards and IFRS (see detailed analysis in March 2025 [Agenda Item 11.2.1](#)). This was a key driver behind the IPSASB's emerging preference for an IFRS aligned categorization approach.
7. Under a public-sector-specific approach, in the absence of a viable set of public-sector-specific categories, the IPSASB would effectively retain the existing IPSAS 1 requirements (summarized in paragraph 5 of the core paper), to require the presentation of the '**surplus and deficit**' total and permit the presentation of any additional subtotals deemed relevant.
8. However, the requirement to only present one total, while the rest of the Statement of Financial Performance is presented in categories, would lack coherence and impede comparable presentation across public sector statements. Given the IPSASB's emerging preference for an IFRS aligned categorization approach, it would be inconsistent to only require the surplus and deficit total without also requiring new subtotals for the new categories. If the IPSASB agrees to introduce a new set of categories aligned with IFRS 18, then it would logically follow to also require the presentation of corresponding subtotals to derive the benefits of the enhanced structure of the Statement of Financial Performance.

## **Presentation of Minimum Line Items on the Statement of Financial Performance**

### **Question**

1. Does the IPSASB agree with Staff and Task Force's recommendations in paragraph 2?

### **Recommendations**

2. Staff and the Task Force recommend that the IPSASB:
  - (a) Continue to require entities to meet minimum presentation requirements regarding financial statement line items on the Statement of Financial Performance;
  - (b) Align with IFRS 18 *Presentation and Disclosure in Financial Statements* guidance (as proposed in paragraph 10), which essentially retains existing IPSAS 1, *Presentation of Financial Statements* requirements with additional guidance to help entities apply the principles; and
  - (c) Present its Preliminary View and rationale in [draft] Chapter 4 of the Consultation Paper (CP).

### **Background**

3. In developing its CP for its Presentation of Financial Statements project, the IPSASB has taken the strategic approach of aligning with IFRS 18 where appropriate for the public sector and is currently considering presentation requirements for the Statement of Financial Performance.
4. In March 2025, IPSASB members tentatively favored categorization aligned with IFRS 18, supplemented by additional public sector guidance, subject to further analysis of a potential GFSM 2014 aligned approach (addressed separately in [Agenda Item 11.2.1](#)). This emerging view suggests a strategic direction toward IFRS alignment for the Statement of Financial Performance, and allows the IPSASB to consider the remaining presentation requirements for this Statement: the presentation of minimum line items, and the presentation of expenses by nature or function. To support the IPSASB and facilitate easier review, Staff and the Task Force have considered and presented analysis regarding the presentation of **minimum line items** in this Agenda Item and analysis regarding the presentation of **expenses by nature or function** in [Agenda Item 11.2.5](#).

### **Analysis**

5. In conducting this analysis, Staff and the Task Force:
  - (a) Acknowledged the unique aspects in the international public sector, and that the IPSAS Standards serve as a baseline for international public sector entities to balance the need for standardization and flexibility to present information in a structured and understand manner, to meet financial statement user needs ([Appendix 1](#) provides more details);
  - (b) Considered whether there is a case for updating IPSAS 1 requirements to improve communication effectiveness for decision-making and accountability purposes, by reviewing public sector examples of Statements of Financial Performance, and considered feedback collected during the research phase (in particular the IPSASB's 2022 Public Standard Setters Forum, summarized in December 2022 [Agenda Item 11.2.1](#)); and
  - (c) If there is a case for updating IPSAS 1, focused primarily on an IFRS-aligned approach (and whether and how to adapt it for the public sector) but also shared analysis regarding other approaches explored. This is in response to the IPSASB's tentative preference for an IFRS-

aligned approach to categorization on this Statement and the recommendations in preceding Agenda Items ([11.2.1](#) GFSM 2014 categorization approach and [11.2.3](#) totals and subtotals).

*Current IPSAS Requirements (details in [Appendix 1](#))*

6. IPSAS 1 provides minimal requirements regarding the presentation of financial performance information, allowing substantial flexibility for entities to present and disclose information it deems material to its users and faithfully representative of that information. The IPSAS 1 requirements regarding the presentation of line items are aligned with IAS 1.
7. While IPSAS 1 does not require categorization, it does require and/or permit specific line items presentation and disclosure<sup>15</sup>:
  - (a) Sets minimum requirements regarding the financial statement line items to be presented on the face of the Statement of Financial Performance, such as finance costs, impairments losses, or gains or losses on certain financial assets, or surplus/deficit amounts attributable to specific investments or owners;
  - (b) Prompts entities to include additional line items, with useful descriptions, to help users understand the entity's performance in the current period, and its ability to meet service delivery obligations, considering future projections; and
  - (c) Requires separate disclosure of specific items, such as write-downs and disposals of assets, restructuring activities, litigation settlements, or provision reversals, and subclassifications of total revenue.

*Whether to Revise IPSAS Requirements*

8. Staff and the Task Force considered whether there is a case for revising existing requirements:
  - (a) In practice, the line items presented on the face of the Statement directly reflect the entity's actual activities and transactions during the reporting period, in compliance with presentation requirements, and share information deemed important to its financial statement users.
  - (b) Initial feedback suggests that the IPSASB's approach to the presentation of line items, setting minimum requirements in IPSAS 1, has been effective and remains appropriate. This approach balances standard requirements to present specific material information consistent with requirements in other IPSAS Standards, while allowing flexibility for reporting entities to present additional information it considers important to its financial statement users.
9. There is no strong case for revising existing IPSAS 1 requirements regarding the minimum line items presented in the Statement of Financial Performance because these requirements:
  - (a) Are based on decisions made by the IPSASB in setting requirements in other IPSAS Standards, and reconsidering the minimum line-item presentation requirements across IPSAS Standards will likely involve substantial resources and beyond the scope of this project;
  - (b) Appear to be operating effectively, as there is no substantial feedback indicating that the current list of minimum line items is not appropriate for users; and

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<sup>15</sup> IPSAS 1 also offers entities the choice of presenting expenses by nature of expenses, or their function within the entity. The assessment regarding presentation of expenses by nature or function is assessed separately in [Agenda Item 11.2.5](#).

- (c) Already allow reporting entities to present additional line items, headings, and subtotals if relevant to the users' understanding of the reporting entity's financial performance.
10. Thus, Staff and the Task Force recommend the IPSASB:
- (a) Retain the existing IPSAS 1 guidance summarized in paragraph 7 – this is essentially aligned with the new IFRS 18 guidance, which replaced but did not substantially change equivalent IAS 1 guidance<sup>16</sup>; and
  - (b) Add new application guidance to help public sector entities determine whether to present additional line items to provide a more useful structured summary of its revenue and expenses – this guidance would adapt the IFRS 18 application guidance for the public sector.
11. The following table summarizes the alignment achieved with this recommendation, along with its benefits and drawbacks. Additional details are included in the appendices for reference purposes.
- (a) *Alignment with IFRS 18* – If the IPSASB agrees to this proposal, the presentation requirements would essentially be aligned with IFRS 18 guidance. See [Appendix 2](#) for a summary of guidance and analysis.
  - (b) *Alignment with Government Finance Statistics Manual 2014 (GFSM 2014)* – If the IPSASB agrees to this proposal, the presentation requirements would neither improve nor reduce alignment with GFSM 2014.<sup>17</sup> See [Appendix 3](#) for a summary of guidance and analysis.

Approach	Impact on Alignment		Benefits	Drawbacks
	IFRS	GFSM 2014		
<b>Retain and enhance IPSAS 1</b> (paragraph 10)	Maintained, by aligning with the new IFRS	No change	<ul style="list-style-type: none"> <li>✓ Continues to effectively serve public sector financial statement users' needs.</li> <li>✓ Maintains alignment with IFRS where appropriate and maintaining consistency with the IPSASB Conceptual Framework.</li> </ul>	<ul style="list-style-type: none"> <li>○ Does not weaken nor strengthen the existing degree of alignment with GFSM 2014.</li> </ul>

**Next Steps**

12. Staff and the Task Force propose that, if the IPSASB agrees with paragraph 10, it should also present its Preliminary View and rationale in [draft] Chapter 4 of the CP. Subject to the IPSASB's decision, Staff will also draft guidance for the Illustrative Exposure Draft.

**Decision Required**

13. Does the IPSASB agree with the Staff and the Task Force's [recommendations](#)?

<sup>16</sup> IFRS 18, which replaces IAS 1, retains these equivalent requirements but is now in the context of the newly introduced categorization requirements, with the core focus on providing a structured summary of financial performance information.

<sup>17</sup> There are key differences between IPSAS and GFSM 2014 which pose fundamental challenges in achieving alignment with GFSM 2014. GFSM 2014 requires a different set of line items and prescribes the use of a specific, detailed classification structure for revenue and expense line items. For completeness purposes, Staff and the Task Force considered and presented a GFSM 2014 aligned approach for presentation requirements regarding minimum line items in Section 2 of [Appendix 3](#), and its rationale for not pursuing GFSM alignment.

**Appendix 1 – Additional Details: Current IPSAS 1 Requirements and Public Sector Considerations**

1. The table below summarizes IPSAS 1 guidance related to this topic. These paragraphs were aligned with IAS 1 *Presentation of Financial Statements*, before IAS 1 was replaced by IFRS 18 *Presentation and Disclosure in Financial Statements*.

IPSAS 1 Paragraphs	Purpose of Guidance	IAS 1 Equivalent
<i>Information to be Presented on the Face of the Statement of Financial Performance</i>		
102, 103	Sets the minimum requirements regarding the financial statement line items to be presented on the face of the Statement of Financial Performance: <ul style="list-style-type: none"> <li>• Revenue, presenting separately certain interest revenue, and gains or losses from the derecognition of certain financial assets</li> <li>• Finance costs</li> <li>• Impairment costs</li> <li>• Share of the surplus or deficit of associates and joint ventures accounted for using the equity method</li> <li>• Gains or losses from the reclassification of certain financial assets to be measured at fair value through surplus or deficit</li> <li>• Surplus or deficit attributable to non-controlling interests or owners of the controlling entity</li> <li>• Total surplus or deficit</li> <li>• A single amount for the total of discontinued operations</li> </ul>	82, 81B
104, 105	Prompts entities to consider the entity's activities, transactions, and service delivery objectives, in the context of materiality, to present additional line items, headings, and subtotals that are relevant to understanding the entity's financial performance.	85, 105
<i>Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes</i>		
106, 107, 108	Requires disclosure of the nature and amount of material revenue and expense items separately. Identifies circumstances when specific revenue and expense items are to be disclosed separately, including but not limited to: <ul style="list-style-type: none"> <li>• Write-downs of certain tangible assets (inventories, PP&amp;E) and reversals of such write-downs</li> <li>• Restructurings, and reversals of any provisions for the costs of restructuring</li> <li>• Disposals of items of PP&amp;E</li> <li>• Privatizations or other disposals of investments</li> <li>• Discontinued operations</li> <li>• Litigation settlements</li> <li>• Other reversals of provisions</li> </ul>	97, 98, 77
117	Requires entities that has share capital and provides dividend or similar contributions to its owners to present on face of the Statement of Financial Performance or Statement of Changes in Net Assets/Equity, or disclose in the notes, the amount of dividends or similar distributions recognized as contributions to owners during the period, and the related amount per share.	107

2. The following are unique aspects of the international public sector:
- (a) Public sector entities engage in a wider range of activities, responsibilities and service delivery objectives, and have a different set of financial statement users, than private sector entities. This means that:
- (i) Some public sector entities may have one core objective or function (e.g., a ministry of transportation), while others may have multiple (a municipal government);
- (ii) What constitutes the “most useful structured summary of expenses” may differ; and

- (b) Public sector entities comprise not only national governments, but also individual ministries, local governments, and other public sector organizations. This means the types of public sector entities applying accrual accounting requirements are broader than those applying GFS statistical reporting requirements, which may justify different presentations.
- 3. Given the diversity across the international public sector, the IPSAS Standards are typically applied as-is (i.e., without modifications) or are used as a basis with adaptations for certain jurisdiction-specific considerations and needs (i.e., with modifications) to reflect their specific institutional, legal, and operational contexts. Any presentation requirements proposed in this project will continue to serve as a baseline for international public sector entities to balance the need for a standardized structure (for comparability and consistency) and flexibility (to acknowledge entity- and jurisdiction-specific differences) to present financial statement information in a structured and understand manner, to meet financial statement user needs.

**Appendix 2 – Additional Details: IFRS 18 Guidance and Alignment Considerations**

This Appendix is a detailed summary of IFRS guidance related to this topic, for reference purposes only.

**[Section 1] IFRS 18 Requirements and Relevant IASB Basis for Conclusions**

1. The table below summarizes IFRS 18 *Presentation and Disclosure in Financial Statements* guidance related to this topic, and indicates the equivalent but replaced guidance from IAS 1 *Presentation of Financial Statements*, where applicable. Overall, there was no substantial change in this guidance.

IFRS 18 Paragraphs			
Core Text	Application Guidance	Purpose of Guidance	IAS 1 Replaced
<b>Items to be Presented on the Statement of Profit or Loss or Disclosed in the Notes</b>			
75, 76	B77	Requires entities to present specific line items in the Statement of Profit or Loss: <ul style="list-style-type: none"> <li>• Revenue, presenting separately certain interest revenue and insurance revenue</li> <li>• Operating expenses</li> <li>• Share of the profit or loss of associates and joint ventures accounted for using the equity method</li> <li>• Income tax expense or income</li> <li>• A single amount for the total of discontinued operations</li> <li>• Amounts required by IFRS 9, namely certain interest revenue, impairment losses, gains or losses from the derecognition of certain financial assets, gains or losses from the reclassification of certain financial assets to be measured at fair value through profit or loss</li> <li>• Profit or loss attributable to non-controlling interests or owners of the parent</li> </ul> Acknowledges that an entity may be required to present a line item in more than one category.	82, 81B
77	B78-B79	Requires the entity to use judgment to determine whether to present additional line items or disclose items in the notes, and provides: <ul style="list-style-type: none"> <li>• Characteristics for an entity to consider in making its assessment</li> <li>• Certain income and expenses that might have sufficiently dissimilar characteristics, which provide material information, to warrant separate presentation, including but not limited to:                             <ul style="list-style-type: none"> <li>• Write-downs or impairments of certain tangible assets (inventories, PP&amp;E), as well as reversals of such write-downs or impairments</li> <li>• Restructurings, and reversals of any provisions for restructuring</li> <li>• Disposals of items of PP&amp;E</li> <li>• Disposals of investments</li> <li>• Litigation settlements;</li> <li>• Reversals of provisions; and</li> <li>• non-recurring income and expenses not included above</li> </ul> </li> </ul>	85, 98

2. In making its decision to retain the existing IAS 1 requirements regarding minimum line items, the IASB shared the following in its Basis for Conclusions:
- (a) **Financial statement line items** (IFRS 18, BC236-BC237): The IASB did not substantially reconsider the list of line items an entity is required to present in the statement of profit or loss, as the list was based on the development of other IASB projects, and revisiting those requirements would likely have involved substantial resources and delayed its IFRS 18 project.

Instead, the IASB clarified how these requirements interact with the role of the primary financial statements. The only revision to line items requirements was to remove finance costs, and include operating expenses, as a result of its decision to introduce categorization.

- (b) **Presentation of financial statement line items in multiple categories** (IFRS 18, BC239): The IASB noted that a line item may need to be presented in multiple categories to effectively achieve the objective of introducing structure into the Statement of Profit or Loss, to increase comparability and understandability of information presented, and faithfully represent the characteristics of those items. As an example, an entity may present impairment losses under both the Operating category (related to receivables) and Investing category (related to a financial asset that generates a return individually and independently from other resource).

## [Section 2] Aligning IPSAS Requirements with IFRS 18 Requirements

3. In developing IPSAS Standards, the IPSASB aligns with IFRS where appropriate for the public sector. Overall, many underlying accounting principles in the IPSAS Standards are aligned with IFRS.
4. IFRS 18, which replaces IAS 1, retains equivalent requirements regarding the presentation of minimum line items, but is now in the context of the newly introduced categorization requirements, with the core focus on providing a structured summary of financial performance information.
5. Aligning with IFRS 18 requirements, with its categorization requirements, would entail:
  - (a) Retaining IPSAS 1 requirements requiring the presentation of specific line items, with:
    - (i) New application guidance to acknowledge that some required line items may need to be presented in more than one category, to achieve the objective of introducing structure, increasing comparability and understandability of information presented; and
    - (ii) New application guidance to help entities determine whether to present additional line items to provide a more useful structured summary of their revenues and expenses.

**Appendix 3 – Additional Details: GFSM 2014 Guidance and Alignment Considerations**

This Appendix is a detailed summary of Government Finance Statistics Manual 2014 (GFSM 2014) guidance related to this topic, for reference purposes only.

**[Section 1] GFSM 2014 Requirements and Comparison with IPSAS**

1. There are fundamental differences (arising from underlying conceptual differences) between IPSAS and GFS reporting guidelines, which are expected to continue and will be managed.
2. The [IPSAS Standards-GFSM 2014 Alignment Dashboard](#) (latest version presented in March 2025) provides an overview and information about the degree of alignment between IPSAS Standards and GFSM 2014. The following excerpt from Table 3 of the Dashboard highlights key differences between IPSAS 1 and equivalent GFS guidance, specifically the differences related to the Statement of Financial Performance:
  - IPSAS 1 and GFSM 2014 have different names for the financial statements.
  - The minimum items to be presented in the financial statements are different.
  - IPSAS 1 requires only as minimum comparative information for the preceding period, while GFSM 2014 information is usually presented in a time series of data.

It should also be noted that under GFSM 2014, the *Statement of Operations* presents more information than on the IPSAS *Statement of Financial Performance*.

3. The following table summarizes GFS guidance related to this topic. For reasons presented in [Agenda Item 11.2.1](#), this table does not list guidance regarding the presentation of transactions in non-financial assets and financial assets and liabilities.

GFSM 2014 Paragraphs	Purpose of Guidance
<i>The Statement of Operations</i>	
4.9, 4.16, 4.22	Indicates that the Statement of Operations a summary of transactions representing changes in stock positions that arise from mutually agreed interactions <u>between institutional units</u> . Presents three sections of the Statement: Revenue and Expense transactions, Transactions in non-financial assets, and Transactions in financial assets and liabilities.

GFSM 2014 Paragraphs	Purpose of Guidance
4.23-4.24 Chapters 5-6	<p>Provides definitions and descriptions of revenue and expenses:</p> <ul style="list-style-type: none"> <li>• <u>Revenue</u> are increases in net worth resulting from transactions with another party.</li> <li>• <u>Expenses</u> are decreases in net worth resulting from transactions with another party.</li> </ul> <p>Provides substantial details, definitions, and detailed minimum classification requirements regarding the classification of revenue and expense items.</p> <p><u>For revenue (with more information in Chapter 5 and Table 5.1):</u></p> <p>Lists that general government sector has four types of revenues (<i>by economic type</i>):</p> <ul style="list-style-type: none"> <li>• Taxes</li> <li>• Social contributions</li> <li>• Grants</li> <li>• Other</li> </ul> <p>Lists the revenues that are classified and aggregated within each economic type.</p> <p><u>For expense (with more information in Chapter 6 and Table 6.1):</u></p> <p>Acknowledges two ways to classify expenses: economic classification, or functional classification, as the general government sector has two broad economic responsibilities: to assume responsibility for the provision of selected goods and services to the community, and to redistribute income and wealth by means of transfers.</p> <p>Notes that cross-classification (of economic and functional) can show the types of transactions engaged in to carry out a given function.</p> <p><i>Economic</i> classification (based on economic process involved) into eight categories (types of expenses):</p> <ul style="list-style-type: none"> <li>• Compensation of employees</li> <li>• Use of goods and services</li> <li>• Consumption of fixed capital</li> <li>• Interest</li> <li>• Subsidies</li> <li>• Grants</li> <li>• Social benefits</li> <li>• Other expense</li> </ul> <p><i>Functional</i> classification (based on purpose for which expenditures are incurred) into nine categories (general government functions or socioeconomic objectives):</p> <ul style="list-style-type: none"> <li>• General public services</li> <li>• Defense</li> <li>• Economic affairs</li> <li>• Environmental protection</li> <li>• Housing and community amenities</li> <li>• Health</li> <li>• Recreation, culture, and religion</li> <li>• Education</li> <li>• Social protection</li> </ul>

**[Section 2] Aligning IPSAS Requirements with GFSM 2014 Requirements**

4. In developing IPSAS Standards, the IPSASB aims to reduce unnecessary differences with GFS. While there is overlap between IPSAS and GFSM 2014 reporting guidelines, and similar financial information sets, they also achieve different objectives that result in fundamental differences in how, what, and where information is reported<sup>18</sup>. Several key differences exist between IPSAS 1 and the GFS Manual (GFSM 2014) which poses challenges in achieving full alignment.
5. Aligning with GFS requirements would entail:
  - (a) Introducing a different set of minimum line items to be presented on the Statement of Financial Performance, to better align with GFSM 2014’s detailed classification structure and requirements (of line items and five levels of sub-line items); and

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<sup>18</sup> As summarized in the IPSASB’s [Policy Paper](#), *Process for Considering GFS Reporting Guidelines During Development of IPSAS*. The fundamental differences between IPSAS and GFS arise from underlying conceptual differences, which are expected to continue. In developing or revising IPSAS, the IPSASB has the opportunity to manage, and reduce unnecessary differences.

- (b) Adding more prescriptive guidance on the classification and aggregation of revenues and expenses into those line items.
6. While this would result in a standardized, prescriptive structure and presentation on the Statement of Financial Performance, some line items aligned in terminology may not be aligned in what comprises those line items under IPSAS Standards vs. GFSM 2014. This is because the underlying recognition and classification of revenues and expenses differ (for example, the timing of revenue recognition), which means revenue presented on an IPSAS statement is not the same as revenue presented on the GFSM 2014 statement. Aligning the presentation of line items does not necessarily align the substance of those line items. See [Agenda Item 11.2.1](#) for additional information and analysis regarding the fundamental differences between IPSAS Standards and GFSM 2014.

## **Presentation of Expenses on the Statement of Financial Performance**

### **Question**

1. Does the IPSASB agree with Staff and Task Force's recommendations in paragraph 2?

### **Recommendations**

2. Staff and the Task Force recommend that the IPSASB:
  - (a) Continue to offer entities the choice between presenting expenses by nature or by function on the Statement of Financial Performance;
  - (b) Adapt IFRS 18 *Presentation and Disclosure in Financial Statements* guidance for the public sector as proposed in paragraph 11; and
  - (c) Present its Preliminary View and rationale in [draft] Chapter 4 of the Consultation Paper (CP).

### **Background**

3. In developing its CP for its Presentation of Financial Statements project, the IPSASB has taken the strategic approach of aligning with IFRS 18 where appropriate for the public sector and is currently considering presentation requirements for the Statement of Financial Performance.
4. In March 2025, IPSASB members tentatively favored categorization aligned with IFRS 18, supplemented by additional public sector guidance, subject to further analysis of a potential GFSM 2014 aligned approach (addressed separately in [Agenda Item 11.2.1](#)). This emerging view suggests a strategic direction toward IFRS alignment for the Statement of Financial Performance, and allows the IPSASB to consider the remaining presentation requirements for this Statement: the presentation of minimum line items, and the presentation of expenses by nature or function. To support the IPSASB and facilitate easier review, Staff and the Task Force have considered and presented analysis regarding the presentation of **minimum line items** in [Agenda Item 11.2.4](#) and analysis regarding the presentation of **expenses by nature or function** in this Agenda Item.

### **Analysis**

5. In conducting this analysis, Staff and the Task Force:
  - (a) Acknowledged the unique aspects in the international public sector, and that the IPSAS Standards serve as a baseline for international public sector entities to balance the need for standardization and flexibility to present information in a structured and understand manner, to meet financial statement user needs ([Appendix 2](#) provides more details);
  - (b) Considered whether there is a case for updating IPSAS 1, *Presentation of Financial Statements* requirements to improve communication effectiveness for decision-making and accountability purposes, by reviewing public sector examples of Statements of Financial Performance, and considered feedback collected during the research phase (in particular the IPSASB's 2022 Public Standard Setters Forum, summarized in December 2022 [Agenda Item 11.2.1](#)); and
  - (c) If there is a case for updating IPSAS 1, focused primarily on an IFRS-aligned approach (and whether and how to adapt it for the public sector) but also shared analysis regarding other approaches explored. This is in response to the IPSASB's tentative preference for an IFRS-

aligned approach to categorization on this Statement and the recommendations in preceding Agenda Items ([11.2.1](#) GFSM 2014 categorization approach and [11.2.3](#) totals and subtotals).

*Current IPSAS Requirements (details in [Appendix 2](#))*

6. IPSAS 1 requires entities to classify and present expenses on the Statement of Financial Performance, and offers the choice of presenting by the nature of expenses, or their function within the entity, whichever provides information that is faithfully representative and more relevant. IPSAS 1 includes additional guidance, noting that:
  - (a) While both methods provide an indication of costs that vary with the outputs of the entity, each method has different merits for different types of entities:
    - (i) Presenting expenses by nature is useful in predicting future cash flows and may be simpler to apply, because it would not be necessary to allocate expenses to functional classifications which may require judgment and potentially arbitrary allocations; while
    - (ii) Presenting expenses by function requires more judgment, but may provide more relevant information to users about the entity's specific program(s) and purpose(s) to fulfill its service delivery objective;
  - (b) The choice between the two methods depends on historical, and regulatory factors, and the nature of the reporting entity. The reporting entity select the most relevant and faithfully representative presentation for its own entity; and
  - (c) Given the usefulness of presenting expenses by nature, an entity that selects the function of expense method is required to also disclose additional information on the nature of expenses.

*Whether to Revise IPSAS Requirements*

7. Staff and the Task Force considered whether there is a case for revising existing requirements:
  - (a) In practice, expenses are typically presented by nature on the face of the Statement, with additional details in the notes about the nature and amount of material items (see [Appendix 2](#)).
  - (b) Initial feedback suggests that the IPSASB's decision to allow reporting entities to choose between presenting expenses by nature or function may need to be revisited. While it seems common for public sector entities to present expenses by nature on the face of the Statement of Financial Performance, there appears to be some preference for a presentation that better allows financial statement users to better understand how the reporting entity allocates its resources to activities and programs at the core of the entity's service delivery objectives.
8. There appears to be a case for reconsidering existing IPSAS 1 requirements regarding the presentation of expenses. This project is an opportunity to revise IPSAS requirements, while considering the project drivers and IPSASB's policies on maintaining alignment with IFRS where appropriate and reducing unnecessary differences with GFSM 2014. In considering how to revise IPSAS requirements, Task Force members reflected that:
  - (a) There are different but equally valuable benefits to presenting by nature or by function. It has been useful to allow public sector entities to choose the method that provides information that is more relevant and faithfully representative for their financial statement users, and set IPSAS requirements that serve as a baseline to adapt for jurisdiction-specific needs; however,

- (b) The initial feedback in paragraph 7(b) may be an indication that more guidance is necessary to help entities understand the different benefits to better determine which presentation method would provide information more relevant and faithfully representative for users, which would better allow users to understand the entity's allocation of resources to activities and programs.

9. Thus, Task Force members concluded that:

- (a) It would be appropriate to continue allowing reporting entities to make their own determination about which presentation method provides a more useful structured summary of their revenues and expenses, that is relevant and faithfully representative; and
- (b) Additional guidance may be needed to help entities understand the different benefits to better make that determination.

*Potential New IPSAS Requirements (detailed assessment in [Appendix 1](#))*

10. To identify potential new requirements for the presentation of expenses, Staff and the Task Force:

- (a) Considered **IFRS 18 requirements**, and what aligned requirements would entail ([Appendix 3](#)) – based on its assessment, Staff and the Task Force are of the view that there are benefits to aligning with IFRS 18 (as it continues to provide the choice between nature and function method, and provides guidance to help entities determine which method provides more a useful structured summary of expenses, consider materiality, and note when allocation may be arbitrary and thus not representative). However, adaptations are necessary to address potential challenges for implementation in the public sector<sup>19</sup>; and
- (b) Considered **GFSM 2014 requirements**, and what aligned requirements would entail ([Appendix 4](#)) – based on its assessment, Staff and the Task Force are of the view that there are substantial drawbacks, due to the fundamental differences in the two reporting frameworks to aligning with GFSM 2014.

11. *Proposed adaptations* – Given these assessments and the IPSASB's emerging preference for an IFRS-aligned approach to presentation requirements for the Statement of Financial Performance, Staff and the Task Force propose the IPSASB adapt IFRS 18 as follows to better serve the needs of the public sector (see [Appendix 1](#) for detailed analysis, with benefits and drawbacks):

- (a) **Prohibit mixed presentation** – IFRS 18 permits presentation of some expense line items by nature, and others by function, in response to direct requests from private sector constituents. Prohibiting mixed presentation in the IPSAS Standards would be more appropriate, to more effectively respond to initial feedback from public sector constituents to improve consistency and reduce diversity of presentation in practice.
- (b) **Revise and/or enhance supporting guidance** – IFRS 18 provides application guidance in the private sector context. Revising and adding new guidance to reflect the public sector would help entities understand the different merits of presenting expenses by nature vs. by function and determine which method would be more useful for their financial statement users by considering the nature of the entity, its users, and other factors. For example, a national government or entity accountable for providing multiple services or delivering on multiple

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<sup>19</sup> Adapting IFRS 18 would be consistent with the IPSASB's process for adapting IASB documents, and acknowledges that aligning presentation requirements is sensible, given the greater alignment between IPSAS' and IFRS' underlying principles (vs. GFSM 2014).

programs may conclude that 'by function' would be more appropriate, while a ministry responsible for effectively using its resources to achieve one predominant objective or outcome may conclude that 'by nature' would be more appropriate. Paragraph 4(b) of [Appendix 1](#) provides additional examples of revised or additional guidance to support public sector entities, which can be leveraged for Application Guidance in the Illustrative Exposure Draft.

12. *What changes from current IPSAS 1?* This proposal adapts IFRS 18, but does not substantially change the existing requirements in IPSAS 1. Rather, this set of proposed presentation requirements acknowledges and retains the benefits of IPSAS 1 requirements, and evolves them in response to initial feedback and recent IASB developments. Overall, the proposal in paragraph 11:
- (a) Retains existing IPSAS 1 requirements by continuing to provide entities the choice between presenting its expenses by nature or by function, and providing supporting guidance for when entities cannot allocate expenses without arbitrary decisions or when entities choose to present by function;
  - (b) Reframes the existing IPSAS 1 requirements for the presentation of expenses in the context of new categorization requirements for the Statement of Financial Performance; and
  - (c) Adds new guidance to better help entities determine which presentation method (nature or function) would provide more relevant and faithfully representative information.

*Next Steps*

13. Staff and the Task Force propose that, if the IPSASB agrees with paragraph 11, it should also present its Preliminary View and rationale in [draft] Chapter 4 of the CP. Subject to the IPSASB's decision, Staff will also draft guidance for the Illustrative Exposure Draft.

**Decision Required**

14. Does the IPSASB agree with the Staff and the Task Force's [recommendations](#)?

## **Appendix 1 – Proposed New Requirements for the Presentation for Expenses**

This Appendix provides detailed analysis of potential new IPSAS requirements for the presentation of expenses on the Statement of Financial Performance, to accompany the core paper.

1. In considering application in practice and initial feedback, Task Force members reflected that:
  - (a) There are different but equally valuable benefits to presentation of expenses by nature or by function that continue to exist for users of financial statement users. Depending on the entity, the benefits of one method may be stronger than the benefits of the other method. Thus, it would be appropriate to continue allowing reporting entities to make their own determination about which presentation method provides a more useful structured summary of their revenues and expenses, that is relevant and faithfully representative.
  - (b) Given the diversity of the international public sector (highlighted in [Appendix 2](#)), removing the option or requiring presentation by one method on the face the Statements may create new challenges or burdens that do not currently exist.
  - (c) The initial constituent feedback may be an indication that more guidance is necessary to help entities understand the different benefits to better determine which presentation method would provide information more relevant and faithfully representative for users, to help them understand how resources are allocated to achieve service delivery objectives.
2. Staff and the Task Force identified an opportunity to revise existing IPSAS 1 requirements regarding the presentation of expenses on the Statement of Financial Performance to address initial constituent feedback, while considering IFRS alignment and reducing unnecessary differences with GFSM 2014. To help the IPSASB determine how to revise this guidance, Staff and Task Force considered related IFRS 18 and GFSM 2014 requirements and assessed what alignment with those requirements would entail in [Appendix 3](#) and [Appendix 4](#), respectively.
3. Based on these assessments, Staff and the Task Force noted that:
  - (a) Aligning with IFRS 18 requirements, with public sector adaptations, would be most consistent with the IPSASB's tentative preference to align with IFRS 18 for the categorization of revenue and expense items on the Statement of Financial Performance (March 2025), and with Staff and Task Force's recommendations other presentation requirements related to this Statement (Q2 2025).
  - (b) Aligning with GFSM 2014 requirements is not feasible due to the fundamental differences between IPSAS Standards and GFSM 2014. The detailed analysis in [Agenda Item 11.2.1](#) highlighted that alignment in presentation does not achieve alignment in substance.
4. Staff and the Task Force propose the IPSASB adapt IFRS 18 for the public sector by:
  - (a) Prohibiting mixed presentation, to avoid potential comparability challenges that may arise from its use.
    - (i) *Why*: IFRS 18 permits the presentation of some expense line items by nature, and other expense line items by function. As summarized in [Appendix 3](#), the IASB acknowledged that mixed presentation poses challenges but provided this option in direct response to constituent feedback in the private sector. For IPSAS Standards, prohibiting mixed presentation would be more appropriate as it yields greater consistency and

comparability across public sector reporting, and more effectively responds to the initial feedback in the public sector by reducing diversity of presentation in practice.

- (b) Revising and/or enhancing IFRS 18 guidance to reflect public-sector-specific considerations, to acknowledge the different merits of information by nature and function, and help a public sector entity determine which method would be more useful to its financial statements users.
- (i) *Why*: IPSAS 1 currently offers limited guidance to help entities determine which method would provide more relevant and faithfully representative information, which may be leading to presentation of expenses that do not adequately support financial statement users' understanding of how the entity allocates resources to its activities and programs. IFRS 18.B80 provides considerations for private sector entities to determine whether to present expenses by nature or function, which could be adapted for the public sector.
- (ii) *Examples of revised or additional guidance*: Additional guidance can explicitly prompt a reporting entity to consider the nature of their delivery objectives, roles and activities, and users, and other factors to identify the best method.
- a. Public sector entities, such as national or state governments, that are accountable for providing specific services or delivering on various public programs may conclude that presenting expenses by function on the face (with more information about the nature of expenses in the notes) provides relevant more information to the users of its financial statements to understand how its allocated resources to achieve those service and program deliveries.
  - b. For national governments reporting at whole-of-government level, presenting expenses by function using classifications similar to GFSM 2014 Classification of Functions of Government (COFOG) may provide relevant information for users.
  - c. Other public sector entities, such as ministries or agencies, may have only one predominant service delivery objective or program, or are accountable to effectively managing the use of resources to achieve specific outcome(s), may conclude that presenting expenses by nature on the face (with more details in the notes) would provide relevant more information to the users of its financial statements to understand how its allocated and used its resources for economic activities related to its services delivery objective(s) and specific outcome(s) (e.g., wages and personnel costs, maintenance activities, etc.).
  - d. If an entity determines that presentation by function better supports financial statement users, it should apply judgment and make best efforts to appropriately allocate expenses to functions. However, if it is not able to do so without arbitrary allocation (which would result in information that is not faithfully representative of resources used for that function), then the entity shall classify and present its expenses by nature.
  - e. Public sector entities should consider common practices by comparable entities (e.g., with a similar remit, or in the same service sector or jurisdiction), to determine which method would better support users of financial statements in understanding the financial information and making such comparisons.

5. The following table summarizes the alignment achieved with this recommendation, along with its benefits and drawbacks. Overall, adapting IFRS 18 provides a better balance of benefits and drawbacks than pure IFRS 18 alignment (Section 2 of [Appendix 3](#)) and GFSM 2014 alignment (Section 2 of [Appendix 4](#)).

Approach	Impact on Alignment		Benefits	Drawbacks
	IFRS	GFS		
<b>Adapt IFRS 18</b>	Primarily align with IFRS 18, but with public sector adaptations	No change	<ul style="list-style-type: none"> <li>✓ Continues to allow reporting entities to make their own determination about which presentation method provides a more useful structured summary of its revenue and expenses, that is relevant and faithfully representative.</li> <li>✓ Retains the merits of both presentation by nature and function.</li> <li>✓ Better reflects the realities and needs of the international public sector, and support them in considering and meeting their financial statement users' need.</li> <li>✓ Provides more guidance to help entities determine the best way to present expenses to more effectively respond to constituent feedback.</li> </ul>	<ul style="list-style-type: none"> <li>○ Reduces alignment with IFRS (because it eliminates the mixed presentation option as it is not appropriate for the public sector and would impede the achievement of public sector financial reporting objectives), consistent with IPSASB's policy for adapting IASB documents.</li> <li>○ Does not weaken nor strengthen the existing degree of alignment with GFSM 2014.</li> </ul>

**Appendix 2 – Additional Details: Current IPSAS 1 Requirements and Public Sector Considerations**

This Appendix provides additional details to accompany the analysis in the core paper.

**[Section 1] Current IPSAS 1 Requirements**

1. The table below summarizes IPSAS 1 guidance related to this topic. These paragraphs were aligned with IAS 1 *Presentation of Financial Statements*, before IAS 1 was replaced by IFRS 18 *Presentation and Disclosure in Financial Statements*.

IPSAS 1 Paragraphs	Purpose of Guidance	IAS 1 Equivalent
<i>Information to be Presented either on the Face of the Statement of Financial Performance or in the Notes</i>		
109, 100, 111	Offers entities the choice of presenting expenses by nature of expenses, or their function within the entity, whichever provides information that is faithfully representative and more relevant.  Encourages entities to present this information on the face of the Statement but allows presentation in the notes.	99, 100, 101
112, 113, 114	Provides more information about the presentation of expenses using the two presentation (“classification”) methods: by nature, or by function.	102, 103
115 (and partial 116)	Requires entities classifying expenses by function on the face of the Statement to disclose additional information on the nature of expenses in the notes, as information on the nature of expenses is useful in predicting future cash flows. <sup>20</sup>	104 (and partial 105)
116	Requires entities to select the most relevant and faithfully representative presentation.  Provides guidance to help entities choose whether to present expenses by nature or by function, for example by considering historical and regulatory factors, and the nature of the entity.  Highlights that both presentation methods provide an indication of how costs vary (directly or indirectly) with the outputs of the entity, but have different merits for different types of entities.	105

**[Section 2] Public Sector Considerations**

2. It is important to consider the unique aspects of the international public sector:
  - (a) Public sector entities engage in a wider range of activities, responsibilities and service delivery objectives, and have a different set of financial statement users, than private sector entities. This means:
    - (i) Some public sector entities may have one core objective or function (e.g., a ministry of transportation), while others may have multiple (a municipal government);
    - (ii) What constitutes the “most useful structured summary of expenses” may differ; and
  - (b) Public sector entities comprise not only national governments, but also individual ministries, local governments, and other public sector organizations. This means the types of public sector entities applying accrual accounting requirements are broader than those applying GFS statistical reporting requirements, which may justify different presentations.

<sup>20</sup> IPSAS 1 paragraph IG3 also provided an illustrative financial statement using classification by function using the GFS Classification of Functions of Government (COFOG). In providing this non-authoritative example, the IPSASB acknowledged that the illustrative functional classification is unlikely to apply to all public sector entities, and that the core text provides a more generic functional classification that is relevant for other public sector entities.

3. Given the diversity across the international public sector, the IPSAS Standards are typically applied as-is (i.e., without modifications) or are used as a basis with adaptations for certain jurisdiction-specific considerations and needs (i.e., with modifications) to reflect their specific institutional, legal, and operational contexts. Any presentation requirements proposed in this project will continue to serve as a baseline for international public sector entities to balance the need for a standardized structure (for comparability and consistency) and flexibility (to acknowledge entity- and jurisdiction-specific differences) to present financial statement information in a structured and understand manner, to meet financial statement user needs.
4. The following are examples of how certain jurisdictions present expenses:
  - (a) Some jurisdictions, such as Switzerland and Germany, have traditionally favored presentation of expenses by nature on the face of the Statement at certain local, state, or national levels.
    - (i) Typical presentation by nature achieves comparability across their public sector and has historically linked with harmonized public sector chart of accounts, and other reporting requirements (such as segment reporting).
    - (ii) In practice, this means that public sector entities that report in accordance with IPSAS Standards (without modifications) also choose to present expenses by nature to meet data delivery requirements for consolidated federal reporting and statistical reporting.
  - (b) In Canada, Canadian Public Sector Accounting Standards (PSAS) requires public sector entities to present expenses by function on the face of the Statement and disclose these expenses by nature (object) in the notes, and does not offer a choice to present expenses by nature on the face. The requirement to present expenses by function or major program has been in place since 2003 (in PSAS 1200 *Financial Statement Presentation*, which was then superseded by PSAS 1201 in 2011, and PSAS 1202 in 2023).
    - (i) In developing PSAS 1202, the PSAB decided to retain this existing requirement to present expense by function (and by nature/object in the notes) because it provides accountability for the total costs for each major function of the public sector entity, is useful for understanding the cost of economic resources consumed to meet the entity's objectives, and allows financial statement users to compare the costs of each function to total costs to obtain information about the entity's priorities.
    - (ii) In practice, presentation by function suits government entities, who typically budget by function, but can also be useful for other public sector entities (e.g., in the health or education sectors). Furthermore, while it is not explicitly included in PSAS guidance, it is accepted practice for entities with only one function to present expenses by nature/object.
  - (c) In France, public sector entities preparing financial statements are generally required to present expenses altogether in a single table, on the income statement, by nature/type to support financial accountability and effective public management.
5. While IPSAS 18, *Segment Reporting* is not in the scope of this project, Staff acknowledge that IPSAS 18 has similar but not equivalent concepts. Segment reporting considers distinguishable activities or groups of activities, that may be by service segment (for outputs or achievement of specific operating activities) or geographic segment (in the context of particular geographic areas) and is applied to the complete set of financial statements. IPSAS 18 also notes that at the whole-of-

government level, such aggregation may (but not always) reflect GFSM 2014 COFOG.<sup>21</sup> Furthermore, under IPSAS 18, entities are not necessarily attributing all revenue and expenses to segments, as there are specific exclusions and attribution guidance, to present segment information primarily to support internal managerial considerations. This is not the same as classification of expenses by function under IPSAS 1. Lastly, it should be noted that IPSAS 18 is not widely adopted in the public sector and is primarily aligned with an IAS that was superseded in 2006 (*IAS 14 Segment Reporting* was superseded by *IFRS 8 Operating Segments*). IFRS 18 refers to IFRS 8 in very limited circumstances, noting reportable segment disclosures may be an indication of (a) specified main business activities and (b) management-defined performance measures.

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<sup>21</sup> COFOG reporting is comparable, but not equivalent, to IPSAS 18, which requires entities to aggregate and report financial information in a manner that reflects major classifications of activities undertaken by general government (e.g., health, education, defence).

**Appendix 3 – Additional Details: IFRS 18 Guidance and Alignment Considerations**

This Appendix provides additional details to accompany the analysis in the core paper.

**[Section 1] IFRS 18 Requirements and Relevant IASB Basis for Conclusions**

- The table below summarizes IFRS 18 *Presentation and Disclosure in Financial Statements* guidance related to this topic, and indicates the equivalent but replaced guidance from IAS 1 *Presentation of Financial Statements*, where applicable.

IFRS 18 Paragraphs			
Core Text	Application Guidance	Purpose of Guidance	IAS 1 Replaced
<i>Presentation and Disclosure of Expenses Classified in the Operating Category</i>			
78	B80, B85	<p>Offers entities the choice of classifying and presenting expenses in the operating category by nature of expenses, or their function within the entity, whichever provides the most useful structured summary of those expenses.</p> <p>Provides additional guidance to help entities determine how to use the characteristics of nature and function to achieve this goal:</p> <ul style="list-style-type: none"> <li>• What provides the most useful information about the main components or drivers of profitability</li> <li>• What most closely represents the way the business is managed, and how management reports internally</li> <li>• What standard industry practice entails</li> <li>• Whether the allocation of particular expenses to functions would be arbitrary to the extent that the line items presented would not provide a faithful representation of the functions</li> </ul> <p>Requires entities to determine the appropriate level of aggregation for operating expenses to provide the most useful structured summary.</p>	99, 100, 101, 105
79	B81-B82	<p>Allows the entity to use a “mixed presentation” format: some operating expenses can be classified by nature, while others can be classified by function (i.e., the same characteristic does not have to be used as the aggregation basis for all line items). However:</p> <ul style="list-style-type: none"> <li>• An individual line item should be aggregated based one characteristic (either nature OR function – i.e., the composition of an individual line item cannot be mixed)</li> <li>• The line items should be labelled in a way that clearly identifies the included expenses</li> </ul>	n/a
80, 81	-	Provides more information about the presentation of operating expenses using the two presentation (“classification”) methods: by nature, or by function.	102, 103

IFRS 18 Paragraphs			
Core Text	Application Guidance	Purpose of Guidance	IAS 1 Replaced
82, 83	B83-B84	<p>Requires entities presenting one or more line items of operating expenses by function to also:</p> <ul style="list-style-type: none"> <li>• Present separate line item for cost of sales</li> <li>• Disclose a qualitative description of the nature of expenses included in each function line item</li> <li>• Disclose in a single note, the total for specific expenses by nature (depreciation, amortization, employee benefits, impairment losses and reversals, write-downs and reversals), in the operating category and outside the operating category</li> </ul> <p>Requires entities to classify and present expenses consistently from one reporting period to the next (unless there's a significant change in the nature of the entity's operations or review of its financial statements, or as required by an IFRS Standard).</p> <p>Acknowledges that some amounts presented or disclosed could be amounts recognized as part of the carrying amount of an asset (e.g., change in inventories of finished good or work in progress).</p>	104
84, 85	-	Requires entities to disaggregate items to provide material information, with an exemption to achieve a cost-benefit balance in its requirements.	n/a

2. In making its decision to retain the existing IAS 1 requirements regarding line items and classification of expenses in the Operating category, the IASB shared the following in its Basis for Conclusions:
- (a) **Presentation by nature or function** (IFRS 18, BC246-BC247): The Basis for Conclusions do not explicitly discuss why the IASB retained the choice between presentation by nature or function of expense. Rather, the IASB emphasized that it is important for entities to present expenses in the operating category in a way that *provides the most useful structured summary of expenses*, which may vary by entity and their financial statement users. Using nature and function improves the usefulness of information for financial statement users:
    - (i) Presentation by nature of expenses allows users to analyze the components of an entity's operating expenses, helping them forecast those expenses in future periods; and
    - (ii) Presentation by function of expenses within the entity facilitates the calculation of some performance metrics, including margins.
  - (b) **Option for mixed presentation** (IFRS 18, BC250-BC252): The IASB provided this option in response to requests from stakeholder feedback. The IASB acknowledged that there are benefits and drawbacks to mixed presentation (i.e., presenting some operating expense line items by nature, and others by function). While mixed presentation can make it difficult to compare entities, it can also provide the most useful information about profitability, material expenses in the period (such as a substantial impairment of tangible assets), and avoid situations where allocation by function would be arbitrary.
  - (c) **Additional requirements when presenting by function** (IFRS 18, BC249, BC253-BC268): The IASB requires entities presenting line items comprised of expenses classified by function to also present and disclose additional information about the nature of expenses. This is because information about the nature of expenses is useful for financial statement users to forecast future operating expenses and to understand other financial information. The IASB decided not to develop such requirements for the reverse (i.e., it did not require entities

presenting items comprised of expenses classified by nature to disclose information about expenses classified by function) as there was little demand from users for such information and pose costs that exceed expected benefits.

**[Section 2] Aligning IPSAS Requirements with IFRS 18 Requirements**

3. In developing IPSAS Standards, the IPSASB aligns with IFRS where appropriate for the public sector. Overall, many underlying accounting principles in the IPSAS Standards are aligned with IFRS. The IPSAS 1 requirements ([Appendix 2](#)) regarding the presentation of line items are aligned with IAS 1 *Presentation of Financial Statements*. IFRS 18, which replaces IAS 1, retains these equivalent requirements but is now in the context of the newly introduced categorization requirements, with the core focus on providing a structured summary of financial performance information.
4. Aligning with IFRS 18 requirements, with its categorization requirements, would entail:
  - (a) Continuing to provide the choice of classifying and presenting expenses either by the nature of expenses, or by function of the expenses within the entity, with the following changes:
    - (i) Limit this classification requirement to expenses in the *Operating* category only (“operating expenses”). New application guidance will help entities determine how to use the characteristics of nature and function to provide the most useful structured summary of its revenue and expenses;
    - (ii) Allow entities to use a mixed presentation (present some expense line items by nature of expense, and other expense line items by function) if it contributes to providing the most useful structured summary of those expenses that faithfully represents information.
  - (b) Continuing to require entities that choose to present operating expenses by function, to adhere to additional presentation and disclosure requirements.
5. Staff and the Task Force note that aligning with IFRS without modifications:
  - (a) Would mean the IPSASB is not making substantial changes to presentation of expenses requirements, as it retains the choice between presenting by nature or function, but now in the context of the new categorization requirements; however
  - (b) Aligning with IFRS without modifications would introduce the option for mixed presentation, which would impede comparability and create greater diversity and amplify the existing challenge in the public sector.

Benefits	Drawbacks
<ul style="list-style-type: none"> <li>✓ Continues to allow reporting entities to make their own determination about which presentation method provides a more useful structured summary of its revenue and expenses, that is relevant and faithfully representative.</li> <li>✓ Complements the IPSASB's decision to introduce Operating, Investing and Financing categories (subject to IPSASB's agreement with on <a href="#">Agenda Item 11.2.1</a>).</li> <li>✓ Maintains alignment with IFRS where appropriate and maintaining consistency with the IPSASB Conceptual Framework.</li> </ul>	<ul style="list-style-type: none"> <li>○ Introduces the "mixed" presentation approach, which would reduce comparability, as the option would create even greater variations in presentation on this Statement.</li> <li>○ Does not address initial feedback – while IPSAS would offer a choice, public sector entities typically present expenses by nature, which does not enable users to better understand the entity's allocation of resources to activities and programs.</li> </ul>

6. Based on the above, Staff and the Task Force are of the view that if the IPSASB intends to take an IFRS 18 aligned approach for the presentation requirements for the Statement of Financial Performance, it should adapt IFRS 18 requirements to more effectively address initial constituent feedback and minimize comparability risks associated with the mixed presentation option, while considering the qualitative characteristics and constraints of public sector financial reporting and managing potential undue cost or effort.
7. Adapting IFRS 18 would be consistent with the IPSASB's process for adapting IASB documents, and acknowledges that aligning presentation requirements is sensible, given the greater alignment between the underlying accounting principles between IPSAS Standards and IFRS (vs. GFSM 2014).
8. Staff and the Task Force present detailed analysis and a proposal on how the IPSASB could adapt IFRS 18 requirements, in [Appendix 1](#).

**Appendix 4 – Additional Details: GFSM 2014 Guidance and Alignment Considerations**

This Appendix provides additional details to accompany the analysis in the core paper.

**[Section 1] GFSM 2014 Requirements and Comparison with IPSAS**

1. There are fundamental differences (arising from underlying conceptual differences) between IPSAS and GFS reporting guidelines, which are expected to continue and will be managed.
2. The [IPSAS Standards-GFSM 2014 Alignment Dashboard](#) (latest version presented in March 2025) provides an overview and information about the degree of alignment between IPSAS Standards and GFSM 2014. The following excerpt from Table 3 of the Dashboard highlights key differences between IPSAS 1 and equivalent GFS guidance, specifically the differences related to the Statement of Financial Performance:
  - IPSAS 1 and GFSM 2014 have different names for the financial statements.
  - The GFSM 2014 *Statement of Other Economic Flows* is partly captured in the IPSAS *Statement of Financial Position, Statement of Changes in Net Assets/Equity and Statement of Financial Performance*.
  - The minimum items to be presented in the financial statements are different.
  - IPSAS 1 requires only as minimum comparative information for the preceding period, while GFSM 2014 information is usually presented in a time series of data.
  - The Classification of Functions of Government (COFOG) is only used in GFSM 2014.

It should also be noted that under GFSM 2014, the *Statement of Operations* presents more information than on the IPSAS *Statement of Financial Performance*.

3. The following table summarizes GFS guidance related to this topic, for reference purposes only. For reasons presented in [Agenda Item 11.2.1](#), this table does not list guidance regarding the presentation of transactions in non-financial assets and financial assets and liabilities.

GFSM 2014 Paragraphs	Purpose of Guidance
<i>The Statement of Operations</i>	
4.9, 4.16, 4.22	Indicates that the Statement of Operations a summary of transactions representing changes in stock positions that arise from mutually agreed interactions <u>between institutional units</u> . Presents three sections of the Statement: Revenue and Expense transactions, Transactions in non-financial assets, and Transactions in financial assets and liabilities.
4.17-4.20	Describes specific analytic balances (totals/subtotals) on the Statement of Operations.
4.21	Defines expenditure, which is the sum of expense and net investment in non-financial assets and is presented as an additional aggregate in the Statement of Operations.

GFSM 2014 Paragraphs	Purpose of Guidance
4.23-4.24 Chapters 5-6	<p>Provides definitions and descriptions of revenue and expenses:</p> <ul style="list-style-type: none"> <li>• <u>Revenue</u> are increases in net worth resulting from transactions with another party.</li> <li>• <u>Expenses</u> are decreases in net worth resulting from transactions with another party.</li> </ul> <p>Provides substantial details, definitions, and detailed minimum classification requirements regarding the classification of revenue and expense items.</p> <p><u>For revenue (with more information in Chapter 5 and Table 5.1):</u></p> <p>Lists that general government sector has four types of revenues (<i>by economic type</i>):</p> <ul style="list-style-type: none"> <li>• Taxes</li> <li>• Social contributions</li> <li>• Grants</li> <li>• Other</li> </ul> <p>Lists the revenues that are classified and aggregated within each economic type.</p> <p><u>For expense (with more information in Chapter 6 and Table 6.1):</u></p> <p>Acknowledges two ways to classify expenses: economic classification, or functional classification, as the general government sector has two broad economic responsibilities: to assume responsibility for the provision of selected goods and services to the community, and to redistribute income and wealth by means of transfers.</p> <p>Notes that cross-classification (of economic and functional) can show the types of transactions engaged in to carry out a given function.</p> <p><i>Economic</i> classification (based on economic process involved) into eight categories (types of expenses):</p> <ul style="list-style-type: none"> <li>• Compensation of employees</li> <li>• Use of goods and services</li> <li>• Consumption of fixed capital</li> <li>• Interest</li> <li>• Subsidies</li> <li>• Grants</li> <li>• Social benefits</li> <li>• Other expense</li> </ul> <p><i>Functional</i> classification (based on purpose for which expenditures are incurred) into nine categories (general government functions or socioeconomic objectives):</p> <ul style="list-style-type: none"> <li>• General public services</li> <li>• Defence</li> <li>• Economic affairs</li> <li>• Environmental protection</li> <li>• Housing and community amenities</li> <li>• Health</li> <li>• Recreation, culture, and religion</li> <li>• Education</li> <li>• Social protection</li> </ul> <p>[Note: in GFS, functional classification is covered by Classification of Functions of Government (COFOG), produced by the OECD, and is only applied to <i>expenditures</i> (comprising expense and the net investment in non-financial assets, and excludes transactions in financial assets and liabilities). COFOG classification codes differ from the structure of other GFS classification codes, using divisions, groups, and classes. GFS also provides specific guidance, by case/situation, on allocating/apportioning certain expenditures to functions.]</p>

**[Section 2] Aligning IPSAS Requirements with GFSM 2014 Requirements**

4. In developing IPSAS Standards, the IPSASB aims to reduce unnecessary differences with GFSM 2014. While there is overlap between IPSAS and GFSM 2014 reporting guidelines, and similar financial information sets, they also achieve different objectives that result in fundamental differences in how, what, and where information is reported<sup>22</sup>. Several key differences exist between IPSAS 1 and GFSM 2014 which poses challenges in achieving full alignment. See [Agenda Item 11.2.1](#) for details.

<sup>22</sup> Summarized in the IPSASB's [Policy Paper](#), *Process for Considering GFS Reporting Guidelines During Development of IPSAS*. The fundamental differences between IPSAS Standards and GFSM 2014 arise from underlying conceptual differences, which are expected to continue. In developing or revising IPSAS Standards, the IPSASB has the opportunity to manage, and reduce unnecessary differences.

5. Aligning with GFS requirements, would entail removing the choice of classifying and presenting expenses either by nature or function, and instead:
  - (a) Require entities to classify and present expenses by nature, to align with GFSM 2014’s economic classification requirements; and
  - (b) Require entities to provide a note disclosure of expenses by specific expenditure purposes and other transactions related to investment in non-financial assets (such as acquisitions and disposals of fixed assets), to align with GFSM 2014’ functional classification requirements (i.e., Classification of the Functions of Government (COFOG))<sup>23</sup>.
6. Staff and the Task Force note that aligning with GFSM 2014:
  - (a) Standardizes how expenses are presented, but the prescriptive classification and presentation may work well for some (e.g., national, whole-of-government) but not all public sector entities, as differing objectives have led to differing principles and presentation in IPSAS Standards vs. GFSM 2014; and
  - (b) Creates the illusion of alignment without achieving alignment in substance. Substantial review and changes to the IPSAS Standards would be necessary to achieve alignment in substance, which is outside the scope of this project.

Benefits	Drawbacks
<ul style="list-style-type: none"> <li>✓ Standardizes presentation and increases comparability across public sector entities (by nature on the face of the Statement).</li> <li>✓ Results in presentation of expenses in 8 specific types, consistent with GFS’ “economic classification” on their Statement of Operations.</li> </ul>	<ul style="list-style-type: none"> <li>○ Prescribes a specific and rigid classification structure that is suitable for national governments, but does not acknowledge the diversity of the international public sector (i.e., specific structure may not be as suitable for other public sector entities with different core functions).</li> <li>○ Creates illusion of alignment without achieving alignment in substance (as presented line items may align with GFSM 2014, but what makes up those line items may not, due to fundamental differences between IPSAS and GFSM).</li> <li>○ Poses broader challenges for the IPSAS Standards as a whole, because the underlying accounting principles for transactions are primarily aligned with IFRS but the presentation of accounting results become aligned with GFSM.</li> <li>○ May be onerous for non-national government entities to disclose in alignment with COFOG, as COFOG expenditures include “transactions with non-financial assets”, for which there is no direct equivalent under IPSAS.</li> <li>○ Does not address initial feedback – entities still present expenses by nature on the face, and expenditures in the notes (which comprise more than expenses).</li> </ul>

7. Based on the above, Staff and the Task Force are of the view that if the IPSASB should not revise its requirements for the presentation of expenses to better align with GFSM 2014. This proposal is also consistent with the Staff and Task Force’s recommendations presented in [Agenda Item 11.2.1](#).

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<sup>23</sup> COFOG provide classification of government outlays by functions typical of general interest and usefulness to a wider variety of analytic applications. It is applied only to *expenditures*, which is comprised of expenses *and* net investment in non-financial assets (e.g., acquisitions and disposals of fixed assets). COFOG classification codes differ from other GFSM classification codes.

**Review of the Updated [draft] Consultation Paper**

**Question**

1. Does the IPSASB agree with the new and revised text for the [draft] Consultation Paper (CP)?

**Recommendation**

2. Staff recommend the IPSASB agree to incorporate:
  - (a) The revised text proposed in the updated [draft] Chapter 4 of the CP (provided in [Agenda Item 11.3.2](#), with overview provided in Table 1 below); and
  - (b) Appendix A, to accompany the CP (overview provided in Table 2 below).

**Background**

3. The IPSASB decided to take a systematic approach to effectively progress this project by first discussing and finalizing its views on a specific topic, then reviewing the text proposed in the CP to capture those views. To date, the IPSASB has reviewed individual sections of the CP at different meetings, as they pertained to the topics discussed.
4. In Q2 2025, Staff:
  - (a) Compiled previous sections into the master version of the [draft] CP; and
  - (b) Substantially revised [draft] Chapter 4 to:
    - (i) Reflect IPSASB members’ comments and instructions from the March 2025 meeting; and
    - (ii) Propose new text to reflect the considerations and discussions in the preceding June 2025 Agenda Items, for the IPSASB’s consideration and review.
5. This Agenda Item identifies the sections of the [draft] CP, provided in [Agenda Item 11.3.2](#), that require IPSASB review.

**Review of the [draft] Consultation Paper**

6. Staff have substantially revised [draft] Chapter 4 of the CP in the following manner:

*Table 1 – Overview of Revised [draft] Chapter 4*

Topic	Subtopic	CP paragraphs	Changes made since March 2025?
<b>Introduction</b>	–	4.1-4.5	• Editorial, based on IPSASB member comments
<b>Classification of Revenue and Expense Items</b>	Introduction to considering categorization (conceptual benefits, challenges in the public sector, etc.)	4.6-4.17	• Editorial, based on IPSASB member comments, and to make text more succinct

Topic	Subtopic	CP paragraphs	Changes made since March 2025?
	Aligning with IFRS 18 Categories	4.18-4.23	<ul style="list-style-type: none"> <li>Structural, based on IPSASB member comments</li> <li><b>New drafting:</b> Reflects analysis and proposals from <a href="#">Agenda Item 11.2.2</a>, and Dec 2024 (<a href="#">7.2.2</a>), and Mar 2025 (<a href="#">11.2.1</a>)</li> </ul>
	Aligning with GFSM 2014 Categories	4.24-4.26	<ul style="list-style-type: none"> <li><b>New drafting:</b> Reflects analysis and proposals from <a href="#">Agenda Item 11.2.1</a></li> </ul>
	Developing Public Sector Specific Categories	4.27-4.30	<ul style="list-style-type: none"> <li>Structural, based on IPSASB member comments</li> <li><b>New drafting:</b> Reflects analysis and proposals from Mar 2025 (<a href="#">11.2.1</a>)</li> </ul>
	Benefits, Drawbacks, and Preliminary View	4.31-4.32	<ul style="list-style-type: none"> <li><b>New drafting:</b> Reflects analysis and proposals from <a href="#">Agenda Item 11.2.1</a>, <a href="#">Agenda Item 11.2.2</a>, Dec 2024 (<a href="#">7.2.2</a>), and Mar 2025 (<a href="#">11.2.1</a>)</li> <li>Presents proposed <b>Preliminary View</b> on categorization of revenues and expenses</li> </ul>
<b>Presentation of Subtotals</b>	Discussion on Totals and Subtotals, and Preliminary View	4.33-4.35	<ul style="list-style-type: none"> <li><b>New drafting:</b> Reflects analysis and proposals from <a href="#">Agenda Item 11.2.3</a></li> <li>Presents proposed <b>Preliminary View</b> on totals and subtotals</li> </ul>
<b>Presentation of Line Items</b>	Introduction	4.36	<ul style="list-style-type: none"> <li><b>New drafting:</b> to introduce the topic</li> </ul>
	Discussion on Presentation of Minimum Line Items, and Preliminary View	4.37-4.40	<ul style="list-style-type: none"> <li><b>New drafting:</b> Reflects analysis and proposals from <a href="#">Agenda Item 11.2.4</a></li> <li>Presents proposed <b>Preliminary View</b> on minimum line items</li> </ul>
	Discussion on Expenses (by Nature of Function), and Preliminary View	4.41-4.45	<ul style="list-style-type: none"> <li><b>New drafting:</b> Reflects analysis and proposals from <a href="#">Agenda Item 11.2.5</a></li> <li>Presents proposed <b>Preliminary View</b> on expenses by nature or function</li> </ul>

7. Staff have also drafted text for new Appendices to accompany the CP, as follows:

*Table 2 – Overview of New Appendices*

Appendix	Topic	Rationale for Inclusion
Appendix A	<b>Considering IFRS and GFSM 2014</b>	<ul style="list-style-type: none"> <li><b>New drafting:</b> Reflects Staff and the Task Force proposal in <a href="#">Agenda Item 11.2.1</a> to articulate the broader, fundamental considerations regarding GFSM 2014. For balance, the Task Force also recommends the IPSASB also includes a section in this Appendix regarding IFRS.</li> </ul>
Appendix B	<b>Key Public Sector Considerations</b>	<ul style="list-style-type: none"> <li><b>Planned drafting,</b> to reflect IPSASB instruction from March 2025, to incorporate relevant Conceptual Framework guidance.</li> </ul>

<b>Appendix</b>	<b>Topic</b>	<b>Rationale for Inclusion</b>
Appendix C	<b>Illustrative Examples of Statement of Financial Performance using IFRS Categories</b>	<ul style="list-style-type: none"><li>Relocates the illustrative examples, which were previously presented in the March 2025 version of [draft] Chapter 4, to improve the readability of Chapter 4.</li></ul>

8. Staff request the IPSASB review the revised [draft] Chapter 4 and Appendix A, provided in [Agenda Item 11.3.2](#), and confirm whether they agree with the proposed [draft] text to reflect the IPSASB deliberations and relevant analysis to date. Please note:
- (a) The [draft] CP is provided without track changes, for easier readability. A track changes version is available upon request.
  - (b) To effectively use the June 2025 plenary time, members are asked to provide feedback on substantial matters in-session and to send editorial comments to Staff offline.
9. The following sections of the CP do not require IPSASB's review, as they have not substantially changed since the members' last review in September 2024.
- (a) Project Overview
  - (b) Chapter 1: Development of New Presentation Standard
  - (c) Chapter 3: Statement of Financial Position

**Decision Required**

10. Does the IPSASB agree with the Staff [recommendation](#)?

## Supporting Document 1 – Updated Project Plan

- The IPSASB intends to develop and approve a Consultation Paper (CP) and accompanying Illustrative Exposure Draft (IED) in December 2025. The IPSASB has taken a systematic approach to effectively navigate this project. When the IPSASB finishes discussing a specific topic, Staff draft the relevant Chapter for the CP and guidance for the IED, for the IPSASB's review.
- The current progress and proposed next steps are:

Topics	Discussion(s)	CP Development	IED Development
<b>Project Overview and Development</b>			
<ul style="list-style-type: none"> <li>Objective and Scope</li> <li>Development Approach</li> </ul>	Completed (Dec 2023)	Reviewed (Dec 2023)	Reviewed (Jun 2024)
<b>Purpose of FS / General Principles</b>			
<ul style="list-style-type: none"> <li>Objective and Purpose of FS</li> <li>FS Users and Information Needs</li> </ul>	Completed (Dec 2023)	Reviewed (Dec 2023)	Reviewed (Jun 2024)
<ul style="list-style-type: none"> <li>Definitions of FS Elements</li> <li>Comparative Info</li> <li>Fair Presentation and Compliance</li> <li>Offsetting</li> <li>Aggregation and Disaggregation</li> </ul>	Completed (Sep 2024)	Q3 2025	Reviewed (Sep 2024)
<ul style="list-style-type: none"> <li>Materiality</li> <li>Going Concern</li> </ul>	Q3 2025 (contingent on Materiality project)	Q3 2025	Q4 2025
<ul style="list-style-type: none"> <li>Other sub sections [details to come]</li> </ul>	Ongoing	Q3 2025	Ongoing
<b>Statement of Financial Position</b>			
<ul style="list-style-type: none"> <li>Classification (Assets, Liabilities)</li> </ul>	Completed (Jun 2024)	Reviewed (Sep 2024)	Reviewed (Sep 2024)
<ul style="list-style-type: none"> <li>Totals / Subtotals</li> </ul>	Completed (Jun 2024)	Reviewed (Sep 2024)	N/A
<ul style="list-style-type: none"> <li>Line Items</li> </ul>	Completed (Jun 2024)	Reviewed (Sep 2024)	Reviewed (Sep 2024)
<b>Statement of Financial Performance</b>			
<ul style="list-style-type: none"> <li>Classification (Revenues, Expenses)</li> </ul>	Ongoing (Agenda Items <a href="#">11.2.1</a> , <a href="#">11.2.2</a> )	<a href="#">Agenda Item 11.3.2</a>	Q3 2025
<ul style="list-style-type: none"> <li>Totals / Subtotals</li> </ul>	Ongoing (Agenda Item <a href="#">11.2.3</a> )	<a href="#">Agenda Item 11.3.2</a>	Q3 2025
<ul style="list-style-type: none"> <li>Line Items</li> </ul>	Ongoing (Agenda Items <a href="#">11.2.4</a> , <a href="#">11.2.5</a> )	<a href="#">Agenda Item 11.3.2</a>	Q3 2025
<b>Statement of Changes in Net Assets/Equity</b>			
<ul style="list-style-type: none"> <li>Items Outside Surplus/Deficit</li> </ul>	Ongoing Q3 2025	Ongoing Q3 2025	Q4 2025
<ul style="list-style-type: none"> <li>Other Movements</li> </ul>	Q3 2025	Q3 2025	Q4 2025
<b>Disclosures in the Notes</b>			
<ul style="list-style-type: none"> <li>Management-Defined Performance Measures</li> </ul>	Ongoing Q3 2025	Q3 2025	Q4 2025
<ul style="list-style-type: none"> <li>Structure</li> <li>Accounting Policies</li> <li>Key Sources: Estimation Uncertainty</li> <li>...etc.</li> </ul>	Q3 2025	Q3 2025	Q4 2025
<b>Other Elements of IED</b>			
<ul style="list-style-type: none"> <li>Other Sections [details to come]</li> </ul>	Q4 2025	Q4 2025	Q4 2025

**Supporting Document 2 – [draft] Consultation Paper**

This Agenda Item presents the master version of the [draft] Consultation Paper (CP) for Presentation of Financial Statements. The [draft] CP is posted separately for easier readability, and should be reviewed together with [Agenda Item 11.2.6](#).