Supporting Document 1 – [draft] Consultation Paper

This Agenda Item presents the [draft] Consultation Paper (CP), *Presentation of Financial Statements*, and is provided to support the IPSASB's consideration of Agenda Item 4.A.4. The IPSASB has reviewed all sections of the [draft] CP in detail during its previous meetings, and re-reviewed an excerpt of Chapter 6 (Agenda Item 4.A.1).

The [draft] CP is posted with track changes for easier review, and a clean version is available upon request. The following table summarizes changes since December 2025 to support the IPSASB's targeted review (the only substantive changes are in Chapter 6):

Section of CP	Changed since Dec 2025?	Information about Changes[1]
Project Overview	**Yes**	• Editorial
Chapter 1: Development of New Presentation Standard	**Yes**	• Editorial
Chapter 2: General Presentation Requirements	**Yes**	• Editorial
Chapter 3: Statement of Financial Position	**Yes**	• Editorial
Chapter 4: Statement of Financial Performance	**Yes**	• Revised paragraph 4.30(c) to action the IPSASB instruction from December 2025. See Agenda Item 4.A.3. • Editorial
Chapter 5: Statement of Changes in Net Assets/Equity	**Yes**	• Editorial
Chapter 6: Disclosure of Information in the Notes	**Yes**	• Revised to action the IPSASB instructions from December 2025, including revisions to the "Applicability of IFRS 18 MPMs" (see Agenda Item 4.A.1) • Editorial
Appendix A: Considering IFRS and GFSM 2014	**Yes**	• Editorial
Appendix B: Key Public Sector Considerations	**Yes**	• Editorial
Appendix C: Illustrative Examples of Statement of Financial Performance using IFRS Categories	No	–
Appendix D: Illustrative Exposure Draft	**Yes**	• See details in Agenda Item 4.B.3

[1] Editorial changes include changes to: address IPSASB and TF member comments, update formatting, and process other consistency and terminology updates.

Consultation Paper
~~[MM YYYY]~~April 2026
Comments due: [MM DD, ~~YYYY~~2026]

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Presentation of Financial Statements

IPSASB International Public Sector Accounting Standards Board®

IPSASB International Public Sector Accounting Standards Board®

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting and sustainability reporting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances and sustainable development.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS®), IPSASB SRS™ Standards, and Recommended Practice Guidelines™ (RPG™) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS Accounting Standards relate to the general purpose financial statements (financial statements) and are authoritative. IPSASB SRS Standards relate to sustainability disclosures and are authoritative. RPG Guidelines are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS Accounting Standards and IPSASB SRS Standards, RPG Guidelines do not establish requirements. IPSASB SRS Standards and RPG Guidelines do not provide guidance on the level of assurance (if any) to which information should be subjected.

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REQUEST FOR COMMENTS

This Consultation Paper, *Presentation of Financial Statements* was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by [MM DD, YYYY]**.

Respondents are asked to submit their comments electronically through the IPSASB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. This publication may be downloaded from the IPSASB website: www.ipsasb.org. The approved text is published in the English language.

Guide for Respondents

The IPSASB welcomes comments on all the matters discussed in this Consultation Paper, including all Preliminary Views and Specific Matters for Comment. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording. Comments must be submitted in English.

The Preliminary Views and Specific Matters for Comment in this Consultation Paper are provided below. Paragraph numbers identify the location of the Preliminary View or Specific Matter for Comment in the text.

Preliminary View 1—Chapter 1: Development of New Presentation Standard

The IPSASB's Preliminary View is that the development of a new IPSAS Standard to replace IPSAS 1, *Presentation of Financial Statements* should ~~use~~ consider IFRS 18 *Presentation and Disclosure in Financial Statements* ~~as its starting base~~, with appropriate adaptations to reflect the objectives of financial reporting by public sector entities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed in the development approach.

Preliminary View 2—Chapter 2: General Presentation Requirements

The IPSASB's Preliminary View is to continue providing definitions on financial statement elements ~~in the new IPSAS Standard,~~ (aligned with the IPSASB Conceptual Framework and IFRS 18) in the new IPSAS Standard, and other definitions that support the understanding and application of presentation requirements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and clearly explain what you consider from a public-sector perspective.

Preliminary View 3—Chapter 2: General Presentation Requirements

The IPSASB's Preliminary View is to retain the existing requirements regarding comparative information, and to add the requirement for an additional ~~s~~Statement of ~~f~~Financial ~~p~~Position ~~as~~ at the beginning of the preceding period when previously reported information has been materially impacted by a restatement or reclassification into IPSAS Standards, aligned with IFRS 18 requirements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider from a public-sector perspective.

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Preliminary View 4—Chapter 2: General Presentation Requirements

The IPSASB's Preliminary View regarding the other general presentation requirements is to:

a) Retain existing IPSAS 1 guidance, without updates:
   i. The responsibility of financial statements (paragraphs 2.9-2.10)

b) Retain existing IPSAS 1 guidance, with updates to align with IFRS 18 for the public sector context:
   i. The objective of financial statements (paragraphs 2.4-2.8);
   ii. The complete set financial statements (paragraphs 2.11-2.13);
   iii. Identification of financial statements (paragraphs 2.20-2.21);
   iv. Material information (paragraphs 2.33-2.34);
   v. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44);

c) Add new guidance, aligned with IFRS 18 and the IPSASB's Conceptual Framework:
   i. The roles of the financial statements and notes (paragraphs 2.14-2.19); and
   ii. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44).

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed in the development approach.

Preliminary View 5—Chapter 3: Statement of Financial Position

The IPSASB's Preliminary View is that:

(a) The current/non-current approach be retained as the general approach for classifying assets and liabilities on the face of the Statement of Financial Position;

(b) The order of liquidity approach be retained, with application permitted on an exception basis; and

(c) The mixed approach be retained to allow some assets and liabilities to be presented using the current/non-current classification, and others are presented in order of liquidity.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed regarding the classification of assets and liabilities on the Statement of Financial Position.

Preliminary View 6—Chapter 3: Statement of Financial Position

The IPSASB's Preliminary View is that the specific line items required in IPSAS 1 should be carried forward, with enhancements limited to adding a new line for goodwill (to align with IFRS 18).

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what line items should be added or removed from the list provided in Table 3.

Preliminary View 7—Chapter 3: Statement of Financial Position

The IPSASB's preliminary view is that IPSAS Standard should:

(a) Not prescribe a specific structure (i.e. order or format) for presenting the Statement of Financial Position; and

(b) Not require the ~~display~~ presentation of specific subtotals on the Statement of Financial Position.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed regarding the structure and the presentation of specific subtotals.

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Preliminary View 8—Chapter 4: Statement of Financial Performance

The IPSASB's preliminary view is to present revenue and expense items recognized in surplus or deficit in categories on the Statement of Financial Performance. The categorization requirements are aligned with IFRS 18 requirements, with additional public sector guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed (for example, if you prefer a specific public-sector specific categorization, such as those considered in paragraph 4.30, please explain why it would meet the criteria in paragraph 4.29).

Preliminary View 9—Chapter 4: Statement of Financial Performance

The IPSASB's preliminary view is to present totals and subtotals, and to permit entities to present additional subtotals, on the Statement of Financial Performance, as listed in paragraph 4.35. The total and subtotal requirements are aligned with IFRS 18 requirements, adapted for the public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Preliminary View 10—Chapter 4: Statement of Financial Performance

The IPSASB's preliminary view is to maintain the minimum requirements regarding the presentation of line items on the face of the Statement of Financial Performance, with additional guidance. The minimum line items presentation requirements are aligned with IFRS 18 requirements, with additional public sector guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Specific Matter for Comment 1—Chapter 4: Statement of Financial Performance

The IPSASB proposes to maintain the requirements to present ~~its~~ expenses by the nature of the expenses or by their function to the entity on the face of the Statement of Financial Performance, in alignment with IFRS 18 requirements, with additional guidance.

In your view, should the new IPSAS Standard replacing IPSAS 1 permit mixed presentation, where some expense line items are presented by nature, while others are presented by function? Would mixed presentation result in a useful structured summary of those expenses for users of financial statements in your jurisdiction?

Please provide the reasoning behind your view.

Preliminary View 11—Chapter 5: Statement of Changes in Net Assets/Equity

The IPSASB's preliminary view is to maintain (1) requirements to present revenue and expense items recognized outside surplus or deficit directly in net assets/equity, on the Statement of Changes in Net Assets/Equity, and (2) requirements related to reclassification adjustments. ~~The IPSASB also proposes to enhance the disclosure requirements to help users better understand the nature and composition of material revenue and expense items recognized outside of surplus or deficit.~~

Do you agree with the IPSASB's Preliminary View, and are there additional enhancements to ~~this~~ these IPSAS 1 requirements the IPSASB should consider (for example, whether to enhance disclose requirements to help users better understand the nature and composition of material revenue and expense items recognized outside of surplus or deficit)?

If you do not agree, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

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Preliminary View 12—Chapter 5: Statement of Changes in Net Assets/Equity

The IPSASB's preliminary view is to maintain the presentation requirements regarding the Statement of Changes in Net Assets/Equity, and revise the reconciliation requirement to require the reconciliation be displayed on the face of the Statement.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Preliminary View 13—Chapter 5: Statement of Changes in Net Assets/Equity

The IPSASB's preliminary view is that guidance based on IFRIC 17 *Distribution of Non-cash Assets to Owners* should not be incorporated into the IPSAS Standards, as the relevant transactions are not prevalent in the international public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Preliminary View 14—Chapter 6: Disclosure of Information in the Notes

The IPSASB's preliminary view is to retain existing IPSAS 1 requirements for the disclosure of information in the notes to the financial statements, and incorporate the IASB's amendments to IAS 1 (as presented in paragraphs 6.7 and 6.12) which would align with equivalent IFRS Accounting Standards guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Preliminary View 15—Chapter 6: Disclosure of Information in the Notes

The IPSASB's preliminary view is to not incorporate ~~or adapt guidance based on~~ the IFRS 18 definition and disclosure requirements for ~~regarding~~ management-defined performance measures (MPMs) into the IPSAS Standards.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Preliminary View 16—Chapter 6: Disclosure of Information in the Notes

The IPSASB's preliminary view is to not include an amended IFRS 18 MPM concept for application in the public sector (thereby not introducing an amended version of the IFRS 18 MPM definition or disclosure requirements into the IPSAS Standards).

Do you agree with the IPSASB's Preliminary View?

If not, please:

a) Provide your reasons, and provide specific examples of alternative performance measures that are defined by management and provided in public communications outside the financial statements; and

b) Clearly explain why there is a need for greater transparency of those measures that warrants new guidance in the IPSAS Standards.

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CONSULTATION PAPER, *PRESENTATION OF FINANCIAL STATEMENTS*

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Project Overview

Introduction

1. General Purpose Financial Statements ('financial statements') prepared by governments and other public sector entities are structured reports that provide an important source of financial information about:

   (a) The resources the entity owns and controls (its assets);

   (b) The amount it owes and other obligations (its liabilities);

   (c) The money and other resources received in the reporting period (its revenue); and

   (d) The money spent and resources consumed in the reporting period (its expenses).

2. The financial statements confirm the financial impact of transactions incurred and other events or conditions. Under the accrual basis of accounting, this is achieved by presenting information about an entity's financial position, financial performance, and cash flows for a specified reporting period.

3. The information provided in financial statements is used as the basis for decision-making regarding the formation of future budgets, long-term fiscal sustainability forecasts, and public policy decisions. The information is also used to hold governments and other public sector entities accountable for the efficient use and management of public resources.

4. How financial information is presented in financial statements plays a critical role in strengthening public financial management (PFM) globally, due to the importance of ensuring the information presented is faithfully representative, comparable, verifiable, and useful for accountability and decision-making purposes.[1]

5. Users of public sector financial statements include the recipients of public sector services and the resource providers who fund those services (and their representatives). This comprises a wide range of users, such as citizens, taxpayers, legislators, policy advisors, lenders, creditors, and donors.[2] Public sector entities must continually consider how best to present the information provided in financial statements in response to their users' evolving needs.

6. The IPSASB plays a vital role in this process by developing high-quality accounting standards that provide appropriate principles and requirements for the presentation of information in financial statements.

Why is this project being undertaken?

7. The objective of this project is to improve the communication effectiveness of information reported in public sector financial statements by developing a new IPSAS to replace IPSAS 1, *Presentation of Financial Statements.*

8. Financial statements are vital in the public sector as they ensure accountability, inform decision-making, promote transparency, and support efficient resource management. The IPSASB is, therefore, keen to explore enhancements to existing presentation requirements to improve the understandability and accessibility of the information presented in the financial statements.

9. Recent international developments have highlighted the opportunity to improve the existing requirements, given that IPSAS 1 has not been substantially updated since its original publication in 2000. The financial reporting

[1] PFM, in its broadest sense, is the system by which financial resources are planned, directed, and controlled, both externally to and internally within the public sector, to enable the efficient, effective, and sustainable delivery of public service outcomes.

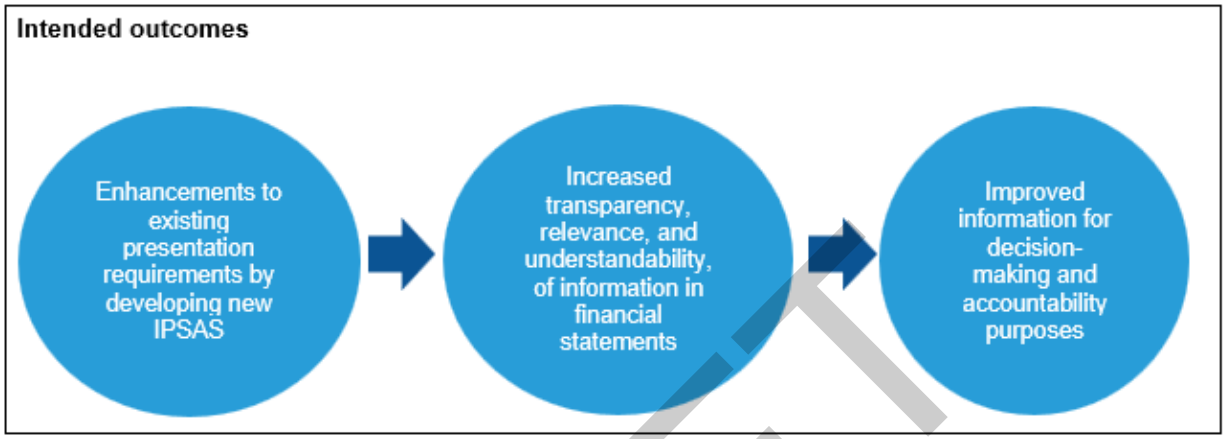
[2] The financial information in financial statements is also used by other parties with an interest in the public sector, for example, statisticians, analysts, media, and lobby groups.

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landscape has evolved significantly over this period, including the development of IFRS 18 *Presentation and Disclosure in Financial Statements* by the International Accounting Standards Board (IASB), published in April 2024.

10. The project aims to develop a modern, fit-for-purpose IPSAS Standard that responds to recent financial reporting developments and the evolving needs of users of public sector financial statements.

11. An overview of the project objective and intended outcomes is illustrated in Diagram 1 below.



What is the scope of this project?

12. To achieve the project objective, the scope is focused on the principles and requirements for presenting information about an entity's assets, liabilities, net asset/equity, revenue, and expenses in its financial statements. This includes information displayed on the face of the primary financial statements and other information disclosed in the notes of the financial statements.

13. The project scope is determined by reference to the existing scope of IPSAS 1. IPSAS 1 currently sets out the general requirements for the selection, location, and organization of information reported in financial statements. The Standard also provides guidance on the structure, minimum disclosures, and overarching principles for preparing financial statements in accordance with IPSAS Standards.

14. IPSAS 1 is primarily focused on setting out the requirements for presenting the Statement of Financial Position, Statement of Financial Performance, and Statement of Changes in Net Assets/Equity. These are described in this consultation as the 'primary financial statements'

15. Other IPSAS Standards that include presentation and disclosure requirements, such as IPSAS 2, *Cash Flow Statements*, are outside the scope of this project. Nonetheless, consequential amendments will be considered as part of this project to ensure other IPSAS Standards continue to work together with the new presentation ~~s~~Standard.[3]

How will this project be developed?

16. The IPSASB decided to initiate this project with a Consultation Paper (CP) due to the critical role that the presentation of financial statements plays in strengthening global PFM and the range of issues involved. The CP offers an opportunity to explore new ideas and gather constituent feedback on the IPSASB's preliminary views before developing a final pronouncement.

[3] Other related standards, in addition to IPSAS 2, include IPSAS 22, *Disclosure of Information About the General Government Sector,* and IPSAS 24, *Presentation of Budget Information in Financial Statements*. The need for comprehensive reviews of these other standards will be considered as part of the IPSASB's future Work Plan development.

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17. The Project is being developed over three distinct phases to allow for stakeholder feedback throughout, as explained in **Table 1**.

Table 1

Phase 1 — Consultation Paper (CP) and illustrative exposure draft (ED)	This is the project's current phase, which is seeking feedback on the IPSASB's preliminary views on developing a new IPSAS Standard to replace IPSAS 1. An illustrative ED is included to provide constituents with an understanding of what the proposed standard could look like based on the IPSASB's preliminary views as proposed in this consultation document.
Phase 2 — ED of the proposed standard to replace IPSAS 1, plus consequential amendments to other IPSAS Standards	Considering constituent feedback from Phase 1, the IPSASB will develop the ED as a final pronouncement, including consequential amendments to other IPSAS Standards for public consultation.
Phase 3 — Final standard	Based on constituent feedback received from Phase 2, the final IPSAS Standard and consequential amendments to other IPSAS Standards will be developed for publication.

18. The goal is to obtain feedback from the wide range of stakeholders who rely on the information presented in public sector financial statements. This feedback is essential for ensuring the development of enhancements to existing requirements are robust, practical, and widely accepted, ultimately contributing to improved transparency and accountability in public sector financial reporting.

19. Accompanying the CP is an illustrative ED of what a future pronouncement to replace IPSAS 1 could look like based on the IPSASB's preliminary views. In many jurisdictions, the existing presentation requirements in IPSAS 1 are well-established and applied broadly across the public sector. The illustrative ED, therefore, provides a helpful picture of what the changes could look like compared with the status quo, allowing constituents to consider the possible impacts and provide informed feedback in response to this consultation.

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Chapter 1: Development of New Presentation Standard

1.1 To achieve the project objective of improving the communication effectiveness of information reported in public sector financial statements, the IPSASB has considered the following to develop a new IPSAS Standard to replace IPSAS 1.

(a) Financial reporting developments since IPSAS 1 was last revised in 2006; and

(b) Issues identified during this project's scoping and research phase.

Financial Reporting Developments

1.2 IPSAS 1 was originally issued in May 2000 and was primarily drawn from IAS 1, *Presentation of Financial Statements* issued by the IASB. The Standard was last revised in December 2006.[4]

1.3 Since IPSAS 1 was last revised, the following related reporting developments have occurred, as summarized in **Table 2**.

Table 2 – Project Drivers

Financial Reporting Developments	Project Drivers[5]
IFRS developments The IASB has revised IAS 1 several times, introducing the concept of other comprehensive income (OCI) and making other amendments arising from its Disclosure Initiative projects. In April 2024, the IASB issued IFRS 18 which supersedes IAS 1.[6]	*Maintaining alignment with IFRS Accounting Standards to the extent appropriate for the public sector* The IPSASB's strategic objective is to align IPSAS Standards with the requirements, structure, and text of IFRS Accounting Standards, where transactions and user needs are the same. Alignment with IFRS Accounting Standards will ensure that the new proposed IPSAS Standard reflects the latest IASB developments. See Appendix A for more details.
IPSASB developments The IPSASB completed its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) for general purpose reporting by public sector entities. This included developing: • Definitions and recognition criteria for financial statement elements such as assets, liabilities, revenue, and expenses; and • General principles for displaying information on the face of the primary financial statements and disclosing information in the notes.	*Consistency with the IPSASB's Conceptual Framework* Since the issuance of its Conceptual Framework in 2014 and updates in 2023, the IPSASB has not completed a full review of IPSAS 1 to ensure consistency of standards-level requirements and principles. Consistency with the Conceptual Framework will help ensure the public sector context is appropriately reflected in the new proposed IPSAS Standard.

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[4] IPSAS 1 has been subsequently amended for consequential amendments relating to the issuance of new IPSAS Standards.
[5] Appendix A provides additional information regarding the IPSASB's process for considering IASB and GFSM 2014.
[6] IFRS 18 was developed to improve the structure and content of the primary financial statements, with a focus on the statement(s) of financial performance.

Financial Reporting Developments	Project Drivers[5]
Government Finance Statistics Manual (GFSM 2014) developments The International Monetary Fund (IMF) issued an updated Government Finance Statistics Manual in 2014 (GFSM 2014). This manual provides comprehensive guidelines for compiling and presenting GFSM 2014 information, reflecting modern developments in fiscal reporting and statistical methodology.	*Reducing unnecessary differences with GFSM 2014* There is considerable overlap between IPSAS Standards accounting data and the information prepared for GFSM 2014 reporting purposes. Removing unnecessary differences between IPSAS Standards and GFSM 2014, will facilitate reporting under IPSAS 22, *Disclosure of Information about the General Government Sector* and help promote the broader use of IPSAS Standards-based information for PFM purposes. See Appendix A for more details.
Related work of National Standard-Setters Many national standard-setters in both the for-profit and public sectors have recently conducted projects focused on improving the communication effectiveness of information presented in financial statements.	*Considering alternative presentation approaches* The related projects of national standard-setters offer valuable insights into the needs of financial statement users at the jurisdictional level. These projects also present alternative presentation approaches that could be useful for reflecting the public sector context.

Issues Identified During Scoping and Research Phase[7]

1.4 During the scoping and research phase, the IPSASB identified the following common presentation issues raised by preparers and users of public sector financial statements.

(a) Entities are unsure how to apply the materiality concept when a specific disclosure is required by a standard, leading to the disclosure of immaterial or non-relevant information.

(b) Inconsistencies in the structure of the ~~s~~Statement of ~~f~~Financial ~~p~~Performance — specifically, the practice of presenting certain items of revenue and expenditure separately from an entity's surplus or deficit for the period.[8]

(c) Increased reporting of non-GAAP measures in financial statements, such as additional sub totals in the ~~s~~Statement of ~~f~~Financial ~~p~~Performance – the most common being 'operating surplus or deficit'. The calculation of these non-GAAP measures varies extensively between different jurisdictions.[9]

(d) Diversity in practice regarding the classification of assets and liabilities on the face of the S~~s~~tatement of ~~f~~Financial ~~p~~Position – for example, as an alternative to the current/non-current classification approach, some jurisdictions are using a financial/non-financial classification approach.

(e) Inconsistent accounting and presentation of equity reserves and reconciliation of movements for the reporting period. Also, some jurisdictions use different descriptions for categorizing equity balances, such as 'restricted and unrestricted reserves' or 'usable and unusable reserves'.

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7 This includes stakeholder feedback from recent IPSASB outreach events.
8 Examples of line items excluded and presented separately include finance revenue, finance costs, proceeds from the sale of assets, fair movements, and actuarial gains and losses.
9 Non-GAAP measures refer to measures of financial performance, financial position, or cash flows that are not based on measures provided for within accounting standards. Non-GAAP measures may be reported within or outside the financial statements.

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1.5 The consideration of these issues has informed the development of the IPSASB's preliminary views as explored in the following chapters of this CP.

(a) General Presentation Requirements — Chapter 2

(b) Statement of Financial Position — Chapter 3

(c) Statement of Financial Performance — Chapter 4

(d) Statement of Changes in Net Assets/Equity — Chapter 5

(e) Disclosure of Information in the Notes — Chapter 6

Development of the Illustrative Exposure Draft

1.6 The IPSASB has reached several Preliminary Views as it has advanced the first phase of this project. An illustrative ED (Appendix D) has been developed to reflect what these views could look like in a new IPSAS Standard.

1.7 The illustrative ED has been developed using IFRS 18 as its starting point. The IPSASB considers that the presentation requirements between IPSAS Standards and IFRS Accounting Standards should be consistent unless there is a public sector reason to warrant a departure.[10] The IASB developed IFRS 18 through a rigorous due process and was tested through focus groups before being published.

1.8 Achieving consistency in the presentation requirements between IPSAS Standards and IFRS Accounting Standards, being how the financial statements are structured, minimum content requirements, and the descriptions used, provides immediate benefits from an understandability perspective. This is due to the familiarity many users of public sector financial statements have with IFRS-based financial statements.[11]

1.9 Although the development of the illustrative ED has been informed by the IASB's latest thinking on the presentation of financial statements as reflected in IFRS 18, it is essential to highlight that this is not purely an IFRS-alignment project. Modifications have been made in the illustrative ED to ensure the public sector context is appropriately reflected.[12]

1.10 Some of the key issues considered from an IFRS 18 alignment perspective, include:

(a) The public sector approach to other comprehensive income (OCI)

IPSAS 1 does not currently include the concept of OCI, whereas IFRS Accounting Standards permits certain income and expense items to be recognized outside of the Profit and Loss Statement and instead presented in the ~~s~~Statement of ~~c~~Comprehensive ~~i~~Income. IPSAS Standards generally requires these equivalent items of revenue and expenses to be recognized directly in equity reserves and accounted for through the Statement Changes in Net Assets/Equity.

(b) Sectioned Statement of Financial Performance

IFRS 18 has introduced a requirement to classify income and expenses into one of five categories presented in the ~~s~~Statement of ~~f~~Financial ~~p~~Performance — operating, investing, financing, income tax, and discontinued activities. An equivalent requirement does not currently exist in IPSAS 1. This consultation explores how revenue and expense should be classified to support the objectives of public

[10] Departures from IFRS Accounting Standards may be warranted when the requirements or terminology in IFRS Accounting Standards do not appropriately reflect the public sector context, or when additional guidance is necessary for specific or more prevalent transactions in the public sector.

[11] Stakeholder feedback on the IPSASB's Mid-Period Work Program Consultation supported the commencement of a project to revise IPSAS 1 based on the recent work of the IASB on improving communication effectiveness of information in financial statements.

[12] This has included considering the outcomes of related projects of public sector national standard-setters.

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sector financial reporting — including whether to retain the requirement to present expenses by function and nature or allow a mixture of both.

(c) Aggregation and disaggregation of information

IFRS 18 has introduced enhanced principles for the aggregation and disaggregation of information. The consultation explores improvements to support the appropriate display of information in the primary financial statements and the disclosure of other information in the notes.

(d) Disclosure of management-defined performance measures

IFRS 18 has also introduced disclosure and reconciliation requirements for when management-defined performance measures (also commonly known as non-GAAP measures) are used to communicate management's view of an aspect of an entity's financial performance. The IPSASB has explored the extent to which non-IPSAS Standards measures are used in the public sector and the need for improved IPSAS requirements.

1.11 These issues have been explored further within the relevant chapters of this CP.

Preliminary View 1—Chapter 1

The IPSASB's Preliminary View is that the development of a new IPSAS Standard to replace IPSAS 1, *Presentation of Financial Statements* should ~~use~~ consider IFRS 18 *Presentation and Disclosure in Financial Statements* ~~as its starting base~~, with appropriate adaptations to reflect the objectives of financial reporting by public sector entities.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed in the development approach.

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Chapter 2: General Presentation Requirements

Overview

2.1 Presentation, which is the selection, location, and organization of information, aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics, while taking into account the constraints of information included in general purpose financial reports. Effective communication of information in financial statements is underpinned by general presentation principles.

2.2 This Chapter outlines the IPSASB's discussions and conclusions regarding these principles as general requirements for financial statements.

2.3 To advance the objectives of this project (as noted in Chapter 1), the IPSASB considered the following general presentation requirements:

(a) Objectives of Financial Statements;

(b) Responsibility for Financial Statements;

(c) Components of Financial Statements;

(d) Definitions; and

(e) General Requirements for Financial Statements.

Objectives of Financial Statements

2.4 General purpose financial statements (GPFSs, or financial statements) provide financial information to users for accountability and decision-making purposes.[13]

2.5 IPSAS 1 currently specifies that the objectives of financial statements are to provide information about a reporting entity's financial position, financial performance, and cash flows that are useful for decision-making and to demonstrate the accountability of the entity for the resources entrusted to it. Financial statements can have a predictive or prospective role regarding resources obtained and generated by continued operations, and provide information about a reporting entity's assets, liabilities, net assets/equity, revenue, expenses, other changes in net assets/equity, and cash flows, to meet these objectives.

2.6 The IPSASB confirmed that the objectives of financial statements stipulated in IPSAS 1:

(a) Are consistent with the *Objectives of Financial Reporting* in the IPSASB Conceptual Framework, issued in 2014 and updated in 2023, which states that the objectives of financial reporting are to provide information about the entity that is useful to users of general purpose financial reports (GPFRs) for accountability purposes and for decision-making purposes. While the scope of financial reporting is more comprehensive than that encompassed by financial statements (i.e., GPFRs are broader than GPFSs, and GPFSs are not intended to include all the information needed to discharge a public sector entity's reporting obligations), the information presented in financial statements remains at the core of financial reporting.[14]

(b) Are aligned in substance with IFRS 18, where the IASB states that the objective of financial statements is to provide information about an entity's assets, liabilities, revenue, and expenses to allow for an assessment of prospects for future net cash inflows to the entity and management's stewardship of the

[13] Presented in the Preface and Chapter 2 of the IPSASB Conceptual Framework.
[14] Chapter 2 of the IPSASB Conceptual Framework.

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entity's economic resources. Aligning with the guidance in IFRS 18 would not result in a substantial change in IPSAS Standards, but appropriately reflects the public sector.

2.7 The IPSASB concluded that the guidance in IPSAS 1 remains appropriate for the public sector, is consistent with the Conceptual Framework, and remains substantially aligned with IFRS Accounting Standards. Thus, the IPSASB proposes to incorporate guidance aligned with IFRS 18, to carry forward public-sector specific guidance from IPSAS 1, and to retitle this guidance as "Objective of Financial Statements" for consistency with the Conceptual Framework.

2.8 In considering how to better align with IFRS 18 guidance as appropriate for the public sector, the IPSASB noted that IFRS 18 does not reference 'cash flows' in its description of the objective of financial statements, as cash flow information is included in financial performance. The IPSASB acknowledged that cash flow information is not defined as a financial statement element and that some see it as an aspect of presenting financial performance, and that the Conceptual Framework emphasizes the importance of providing cash flow information in an entity's financial statements. For consistency with its Conceptual Framework, the IPSASB proposes to retain the reference to cash flows in its description of the objective of financial statements.

Responsibility for Financial Statements

2.9 IPSAS 1 acknowledges that the responsibility for preparing and presenting financial statements varies within and across jurisdictions, noting that some jurisdictions may separate the roles of preparation from those of approval or presentation. It also provides examples of individuals or roles that may be responsible for preparing financial statements at entity level (government departments or equivalent) or consolidated level (the government as a whole).

2.10 The IPSASB concluded that this guidance remains relevant and useful to public sector reporting and, therefore, should be carried forward to the new IPSAS Standard to replace IPSAS 1.

Components of Financial Statements

A Complete Set of Financial Statements

2.11 IPSAS 1 currently outlines the components of a complete set of financial statements, which includes: statement of financial performance, statement of financial position, statement of changes in net assets/equity, cash flow statement, notes, comparative information in respect of the preceding period, and ~~when the entity makes publicly available its approved budget,~~ a comparison of budget and actual amounts when the entity makes publicly available its approved budget. It also allows entities to use alternative titles for the financial statements, provided the content of the statements is faithfully presented.

2.12 The IPSASB concluded that this guidance remains relevant and useful to users of financial statements and is consistent with the equivalent guidance in IFRS 18. Therefore, the IPSASB proposes to carry the guidance forward to the new IPSAS Standard to replace IPSAS 1~~, with updates to include additional guidance from IFRS 18 that is applicable to the public sector~~.

2.13 The IPSASB also noted that, in developing IFRS 18, the IASB retained the guidance indicating that an entity can choose to present its statement of financial performance as either a single statement of profit or loss and other comprehensive income, or a statement of profit or loss and a separate statement presenting comprehensive income. The IPSASB acknowledged that this guidance is related to how 'other comprehensive income' is presented in IFRS Accounting Standards. As articulated in Chapter 5, the IPSASB has formed a preliminary view to retain the public sector difference from IFRS Accounting Standards requirements regarding 'other comprehensive income' in IPSAS Standards; thus, the IASB's guidance regarding financial performance statements would not be relevant for the public sector.

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The Roles of the Financial Statements and Notes

2.14 IPSAS 1, aligned with IAS 1 (2003), does not provide specific guidance on the roles of primary financial statements and notes.

2.15 IFRS 18 introduced new guidance to indicate that the role of the primary financial statements is to provide structured summaries of a reporting entity's recognized assets, liabilities, equity, income, expenses, and cash flows, that are useful for users of financial statements for:

(a) Understanding the entity's financial position and financial performance;

(b) Making comparisons between entities and between reporting periods for the same entity; and

(c) Identifying items or areas where users may seek additional information in the notes.

2.16 The guidance also highlights that the role of the notes is to provide material information to help users understand the line items in the primary financial statements and supplement those statements to achieve the objective of financial statements.

2.17 This is consistent with Chapter 8 of the Conceptual Framework, which includes similar guidance on the selection of information for display or disclosure.

2.18 The IPSASB concluded that it would be appropriate to incorporate this new IFRS 18 guidance on the roles of primary financial statements and notes because:

(a) The primary financial statements and notes serve similar roles in IPSAS Standards and IFRS;

(b) The new guidance is consistent with related concepts in the IPSASB's Conceptual Framework; and

(c) The guidance will help to clarify existing IPSAS 1 presentation requirements.

2.19 Furthermore, the IPSASB has not identified any public sector reasons to significantly adapt or add to the IFRS 18 guidance for the public sector, except for terminology changes for consistency with IPSAS Standards literature.

Identification of the Financial Statements

2.20 IPSAS 1 currently requires an entity to clearly identify and separate the financial statements from other information in the same published document. Additionally, entities must identify each primary financial statements and notes, and prominently disclose the entity's name, reporting scope (individual or group), reporting period, presentation currency, and the level of rounding used.

2.21 These requirements remain relevant to public sector financial reporting, and are consistent with those in IFRS 18. Therefore, the IPSASB proposes to retain them in the new IPSAS Standard that will replace IPSAS 1, with updates to align structurally with IFRS 18.

Definitions

2.22 IPSAS 1 includes several fundamental definitions relating to the presentation of financial statements, which are relevant to many standards. These definitions have remained unchanged since 2000, and updates may be necessary for consistency with the subsequent issuance of the Conceptual Framework and IFRS 18.[15]

[15] The IPSASB Conceptual Framework, first issued in 2014 and recently updated in 2023, presents these definitions in Chapter 5. IFRS 18 was issued in 2024.

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Location of Definitions of Financial Statement Elements

2.23 In assessing these definitions, the IPSASB acknowledged that:

(a) The IPSASB, as a matter of standard practice, presents fundamental definitions on the elements of financial statements in the IPSAS Standards because of its authoritative status. The Conceptual Framework includes definitions of elements of financial statements (specifically, assets, liabilities, revenue, expense, ownership contributions, and ownership distributions[16]) but are non-authoritative; and

(b) The IASB takes a different approach to presenting fundamental definitions on the elements of financial statements. IFRS 18, does not include these definitions but instead refers to the IFRS *Conceptual Framework for Financial Reporting*[17].

2.24 The IPSASB acknowledged that continuing to present definitions of financial statement elements in the new IPSAS Standard replacing IPSAS 1 would be consistent with its standard practice and current IPSAS Standards literature.

Hierarchy of Application of Definitions

2.25 The IPSASB acknowledged there may be implications of aligning the Standards-level definitions with those in the Conceptual Framework, thereby making them authoritative, without due consideration of the context provided by the underlying standards or the appropriate application of recognition criteria.

2.26 For example, to align with the Conceptual Framework, the updated definition of a 'liability' removes the requirement that the settlement of a past event must result in an outflow of resources from the entity. Consequently, certain obligations that would previously have been classified as contingent liabilities may now meet the definition of a liability.

2.27 To address this potential conflict, the IPSASB proposes to include a paragraph to help public sector entities apply the financial statement element definitions. This paragraph would clarify that, when accounting for transactions, events, or conditions that constitute an entity's assets, liabilities, revenue, and expenses – as defined in the new IPSAS Standard to replace IPSAS 1 – the entity should consider the following sources of guidance in the following order, in accordance with IPSAS 3, *Accounting Policies, Changes in Estimates and Errors:*

(a) IPSAS Standards that specifically apply to the transaction, event, or condition;

(b) IPSAS Standards that deal with similar and related issues; and

(c) The definitions, recognition, and measurement criteria for assets, liabilities, revenue, and expense, described in the new IPSAS Standard to replace IPSAS 1 and the Conceptual Framework.

Revisions to Definitions of Financial Statement Elements

2.28 The IPSASB considered updating the definitions of financial statement elements to align with the Conceptual Framework, and noted that:

(a) The definitions in IPSAS 1 and the IPSASB Conceptual Framework are aligned in principle with minor wording differences; and

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[16] IPSAS 1 uses "contributions from owners" and "distributions to owners" respectively.
[17] The IASB does not have equivalent definitions of 'ownership contributions' or 'ownership distributions' in IFRS 18.

(b) One recurring difference is that the IPSASB Conceptual Framework uses 'net financial position' in the definitions of revenue, expense, ownership contributions, and ownership distributions, whereas IPSAS 1 uses 'net assets/equity'.

2.29 The Conceptual Framework defines 'net financial position' as the difference between assets and liabilities after adding other resources and deducting other obligations recognized in the ~~s~~Statement of ~~f~~Financial ~~p~~Position[18]. The IPSASB noted the concept of other resources or other obligations has not specifically been used in IPSAS Standards since the development of the Conceptual Framework in 2014. As a result, the IPSASB concluded that the use of 'net financial position' remains confined to the Conceptual Framework, and 'net assets/equity' should continue to be used at the Standards-level, in the definitions of revenue, expense, ownership contributions, and ownership distributions.

Other Definitions

2.30 The Conceptual Framework, IPSAS 1, and IFRS 18 include other definitions, listed in **Table 1**, that may be useful to present in the new IPSAS Standard.

Table 1 – Other Definitions

Other definitions in IPSASB Conceptual Framework only	Other definitions in IPSAS 1 that are also in IFRS 18	Other definitions in IPSAS 1 only	Other definitions in IFRS 18 only
Disclosed information	Impracticable	Accrual basis	Aggregation
Displayed information	Notes	Economic entity	Classification
Surplus or deficit for the period	Material		Disaggregation
			General purpose financial reports
			General purpose financial statements
			Primary financial statements
			Useful structured summary
			Operating surplus or deficit
			Reclassification adjustments

2.31 The IPSASB considered these definitions and noted that:

(a) Including Conceptual Framework definitions of 'disclosed information' and 'displayed information' in the new IPSAS Standard would help a reporting entity more effectively communicate to the users of its financial statements by distinguishing between information to locate on the face of the financial statements and further detailed information to include in the notes accompanying the financial statements;

(b) IPSAS 1 included definitions that are aligned with IFRS 18 as well as public sector-specific definitions that remain relevant and useful to include in the new IPSAS Standard; and

(c) IFRS 18 introduced new definitions that were not included in IPSAS 1, which are also appropriate to include in the new IPSAS Standard, with public sector terminology.

[18] As presented in Chapter 5 of the Conceptual Framework. Another resource or other obligation is a resource or obligation that does not satisfy the definition of a financial statement element but still needs to be recognized in the financial statements to achieve the objectives of financial reporting.

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2.32 The IPSASB concluded that these definitions would support the understanding and consistent application of presentation requirements, while aligning with the Conceptual Framework and IFRS 18. Thus, the IPSASB proposes to include these definitions in the new IPSAS Standard to replace IPSAS 1.

Preliminary View 2—Chapter 2

The IPSASB's Preliminary View is to continue providing definitions on financial statement elements ~~in the new IPSAS Standard, (~~aligned with the IPSASB Conceptual Framework and IFRS 18~~)~~ in the new IPSAS Standard, and other definitions that support the understanding and application of presentation requirements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and clearly explain what you consider from a public-sector perspective.

General Requirements for Financial Statements

Material Information

2.33 IPSAS 1 provides guidance regarding materiality, and how an entity can consider whether an omission or misstatement is material. The IPSASB reviewed the existing IPSAS 1 materiality guidance as part of the limited scope *Making Materiality Judgement* project, which aims to develop additional guidance to help entities make materiality judgments. As part of the *Making Materiality Judgement* project, the IPSASB issued a final pronouncement, *Definition of Material (Amendments to IPSAS 1, IPSAS 3, and the Conceptual Framework)*, in October 2025, which amends IPSAS 1's definition of 'material' to align with the IPSASB's Conceptual Framework and incorporates relevant and useful IASB guidance.

2.34 For the purposes of this *Presentation of Financial Statements* project, the IPSASB concluded that the revised materiality guidance in the *Definition of Material* pronouncement should be incorporated into the new IPSAS Standard replacing IPSAS 1.

Comparative Information

Existing Requirements for Comparative Information

2.35 The presentation of comparative information enhances the inter-period comparability of information to assist users in decision-making.

2.36 IPSAS 1 currently requires that comparative information for all amounts reported in the current period's financial statements be disclosed for at least one preceding period. Additionally, if an entity changes the presentation or classification of items in the financial statements, comparative amounts shall be reclassified, unless impracticable. In such case, the entity shall disclose the reason for not reclassifying the amounts and the nature of the adjustments that would have been made if the amounts had been classified.

2.37 These requirements remain relevant and useful to users of financial statements and are consistent with the equivalent requirements in IFRS 18. Accordingly, the IPSASB concluded that the requirements should be retained in IPSAS Standards and, where applicable, modified to align with IFRS 18.

Additional Comparative Information

2.38 The IPSASB acknowledged that the IASB added an additional presentation requirement regarding comparative information, which has been carried forward into IFRS 18 with no significant changes, that had not been incorporated into IPSAS 1. Specifically, the IASB revised IAS 1 in 2007 to add a new requirement to present a third ~~s~~Statement of ~~f~~Financial ~~p~~Position as at the beginning of the preceding period, if:

(a) It applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in its financial statements; and

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(b) These changes have a material effect on the information in the ~~s~~Statement of ~~f~~Financial ~~p~~Position as at the beginning of the preceding period.

2.39 The IPSASB noted that introducing this requirement into IPSAS Standards may be excessive, as there is already a requirement to disclose information about any accounting policy changes under IPSAS 3. However, there are notable benefits:

(a) Public sector users seeking to analyze financial statements over an extended number of years rely on understanding any changes to previously reported information about an entity's financial position and performance; and

(b) Would be in line with the project objective and appropriately align with IFRS Accounting Standards.

2.40 Thus, the IPSASB concluded that requiring additional comparative information in the new IPSAS Standard to replace IPSAS 1, consistent with IFRS 18, would enable clearer year-over-year analysis and highlight the impact of any restatements or reclassifications. No compelling public sector reasons to deviate from IFRS 18 were identified.

Preliminary View 3—Chapter 2

The IPSASB's Preliminary View is to retain the existing requirements regarding comparative information, and to add the requirement for an additional ~~s~~Statement of ~~f~~Financial ~~p~~Position ~~as~~ at the beginning of the preceding period when previously reported information has been materially impacted by a restatement or reclassification into IPSAS Standards, aligned with IFRS 18 requirements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider from a public-sector perspective.

Other General Presentation Requirements

2.41 The IPSASB also discussed other general presentation requirements, as presented in **Table 2**.

Table 2 – Other General Presentation Requirements[19]

Other general presentation requirements in IPSAS 1	Other general presentation requirements in IFRS Accounting Standards that were not in IPSAS 1
Fair Presentation and Compliance with IPSAS Standards	Accrual Basis of Accounting
Going Concern	Principles of Aggregation and Disaggregation
Frequency of Reporting	
Timeliness	
Consistency of Presentation	
Offsetting	

2.42 For the requirements that are currently included in IPSAS 1, the IPSASB concluded that these requirements and related guidance are still relevant and useful to ensure public sector entities appropriately present financial information to users of financial statements for accountability and decision-making purposes. In particular, the IPSASB acknowledged that global events, such as political or policy changes, pandemics, and evolving operating conditions, reiterate the importance of the going concern assessment. Public sector

[19] In developing IFRS 18, the IASB decided to move the guidance for fair presentation and compliance with IFRS, going concern, and accrual basis of accounting into IAS 8 *Basis of Preparation of Financial Statements*, instead of IFRS 18. To support constituents in considering the IPSASB's views in this Consultation Paper, equivalent IPSAS Standard guidance for these presentation requirements is illustrated in the illustrative ED.

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entities must continue to consider material uncertainties related to restructurings, policy changes, and other events and conditions on its ability to continue as going concern, in order to provide valuable information to users of the financial statements.

2.43 Therefore, the IPSASB concluded that, where applicable, the guidance for requirements currently in IPSAS 1 should be modified to align as appropriate with IFRS Accounting Standards guidance and carried forward into the new IPSAS Standard replacing IPSAS 1.

2.44 For the requirements that are not currently included in IPSAS 1 but included in IFRS Accounting Standards, the IPSASB concluded that these requirements are consistent with the concepts in the Preface and Chapter 8 of the IPSASB Conceptual Framework. Since these requirements remain relevant to the public sector and are important to achieve the objective of financial statements, the IPSASB proposes to carry them forward into the new IPSAS Standard replacing IPSAS 1, with public-sector terminology adjustments.

Preliminary View 4—Chapter 2

The IPSASB's Preliminary View regarding the other general presentation requirements is to:

a) Retain existing IPSAS 1 guidance, without updates:
   i. The responsibility of financial statements (paragraphs 2.9-2.10);

b) Retain existing IPSAS 1 guidance, with updates to align with IFRS 18 for the public sector context:
   i. The objective of financial statements (paragraphs 2.4-2.8);
   ii. The complete set financial statements (paragraphs 2.11-2.13);
   iii. Identification of financial statements (paragraphs 2.20-2.21);
   iv. Material information (paragraphs 2.33-2.34);
   v. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44);

c) Add new guidance, aligned with IFRS 18 and the IPSASB's Conceptual Framework:
   i. The roles of the financial statements and notes (paragraphs 2.14-2.19); and
   ii. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44).

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed in the development approach.

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Chapter 3: Statement of Financial Position

Introduction

3.1 The Statement of Financial Position (also often known as a 'balance sheet') aims to provide a structured summary of an entity's assets, liabilities, and net assets/equity at the end of a reporting period, together with comparative information – a summarized version of this Statement is illustrated in Figure 1.

Figure 1 – Illustrative Statement of Financial Position

Statement of Financial Position As at December 31, 20X46 Assets Liabilities	**20X46** CU	**20X35** CU
Net assets		
Components of net assets/equity		
Total net assets/equity		

3.2 The Statement of Financial Position provides financial statement users with information to help assess:

(a) The extent to which management has discharged its responsibility for safekeeping and managing the resources of the entity;

(b) The extent to which resources are available to support future service delivery activities (i.e. its assets);

(c) The amount and timing of future cash flows necessary to service and repay existing debts and other claims to the entity's resources (i.e., its liabilities);

(d) The liquidity of assets and liabilities held — how quickly assets can be converted into cash and when liabilities are required to be settled; and

(e) An entity's solvency — its ability to meet its short-term and long-term financial and service delivery obligations as they fall due (i.e. its 'financial sustainability').

3.3 This Chapter explores how this information should be presented in the Statement of Financial Position to enhance its transparency and understandability for accountability and decision-making purposes.[20]

3.4 To advance the objectives of this project (as noted in Chapter 1), the IPSASB considered the following core aspects of presenting the Statement of Financial Position:

(a) Classification of Assets and Liabilities;

(b) ~~Display~~Presentation of Specific Line Items; and

(c) Structure and Presentation of Subtotals.

3.5 When considering these core aspects, the IPSASB noted that the existing requirements in IPSAS 1 for presenting the Statement of Financial Position are currently aligned with IFRS 18. Through the development of its *Primary Financial Statements* project, the IASB did not identify the need to amend the existing requirements for presenting this statement in IFRS 18.

[20] Individual IPSAS Standards set out the requirements for recognizing and measuring the balances that make up an entity's financial position, this project is focused on how these items should be presented.

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Classification of Assets and Liabilities

3.6 When presenting the Statement of Financial Position, an entity is required to classify its assets and liabilities into broad groups based on shared characteristics. This classification helps to enhance understandability and comparability by providing a clear and structured format for presenting the statement.

3.7 IPSAS 1 currently requires an entity to present its assets and liabilities on the Statement of Financial Position using a current/non-current classification or, on an exception basis, an order of liquidity approach.

Current/Non-current Classification Approach

3.8 The current/non-current approach requires that assets and liabilities be classified based on whether they are current or non-current, as illustrated in **Figure 2**.

3.9 The approach distinguishes assets and liabilities continuously circulating as 'working capital' (classified as current) from those used to service the entity's long-term operations (classified as non-current). The information provided by the current/non-current classification is often used for various assessments, such as an entity's ability to continue as a going concern and compliance with debt covenants.[21]

3.10 The public sector manages its assets and liabilities to ensure resources are available over the short, medium, and long term to sustain service delivery. The current/non-current classification helps to explain the net resources immediately available for service delivery and those earmarked for longer-term initiatives. This supports informed decision-making regarding resource allocation and fiscal planning.

3.11 IPSAS 1 provides specific criteria and guidance for classifying assets and liabilities as current or non-current, as summarized in **Table 1**.

Figure 2 — Example of Current/Non-current Classification

Statement of Financial Position **As at December 31, 20X6**	**20X6**	**20X5**
ASSETS		
Current assets		
…		
Total current assets		
Non-current assets		
…		
Total non-current assets		
Total assets		
LIABILITIES		
Current liabilities		
…		
Total current liabilities		
Non-current liabilities		
…		
Total non-current liabilities		
Total liabilities		
Net assets		
NET ASSETS/EQUITY		
Components of net assets/equity		
Total net assets/equity		

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[21] The term 'working capital' describes the difference between current assets and current liabilities. It is often used as a key indicator of an entity's short-term solvency.

Table 1 – Current/Non-current Distinction

Assets	Liabilities
Current assets Resources expected to be converted into cash or used up within a year or the entity's operating cycle, whichever is longer. For example, cash and bank accounts, accounts receivable, and inventory.	**Current liabilities** Obligations due within a year or the entity's operating cycle, whichever is longer. For example, accounts payable and short-term loans.
Non-current assets All other assets not classified as current. For example, property, plant and equipment, intangibles, and long-term investments.	**Non-current liabilities** All other liabilities not classified as current For example, long-term loans and provisions.

Order of Liquidity Approach

3.12 IPSAS 1 also allows an entity to present its assets and liabilities using an order of liquidity approach, as illustrated in **Figure 3**.

3.13 This approach involves listing asset and liability line items on the Statement of Financial Position based on their relative liquidity (i.e., how quickly they can be converted into cash or settled).

3.14 The approach is permitted on an exception basis when it provides a more faithfully representative and relevant summary of an entity's financial position.

3.15 Financial institutions, service industries, and insurance entities often use this approach because the assets and liabilities held are mainly financial. For these entities, users are more interested in when their assets and liabilities mature as it better reflects the performance of their operations.

Figure 3 — Example of Order of Liquidity Approach

Statement of Financial Position **As at December 31, 20X6**	**20X6**	**20X5**
ASSETS		
Cash and cash equivalents		
Receivables		
Financial assets		
Total assets classified as held for sale and assets included in disposal groups classified as held for		
Inventories		
Investment property		
Investments accounted for using the equity method		
Intangible assets		
Property, plant, and equipment		
Total assets		
LIABILITIES		
Payables		
Taxes and transfers payable		
Social benefits liabilities		
Financial liabilities		
Provisions		
Liabilities included in disposal group classified as held for sale		
Total liabilities		
Net assets		
NET ASSETS/EQUITY		
Components of net assets/equity		
Total net assets/equity		

Alternative Classification Approach

3.16 As an alternative to the traditional current/non-current approach, the IPSASB noted that several jurisdictions currently use a financial/non-financial classification when presenting the Statement of Financial Position at central government and other levels of the public sector.[22]

[22] For example, the central government financial statements of Australia, Canada, and France broadly classify their assets and liabilities based on applying a financial/non-financial distinction.

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3.17 The financial/non-financial approach involves classifying assets and liabilities based on whether they are considered financial or non-financial, as illustrated in **Figure 4**.

3.18 For those jurisdictions currently using a financial/non-financial classification, they highlight that this presentation approach provides users with an understanding of:

(a) The financial assets available to cover the immediate expenses associated with the ongoing delivery of services to the public;

(b) The non-financial assets intended to sustain public service delivery over the long term; and

(c) The financial liabilities and other non-financial liabilities recognized.

3.19 Presenting financial assets and financial liabilities separately increases the focus on how effectively an entity manages its financial resources. If financial liabilities exceed financial assets, it signals to users that actions such as raising revenues, reducing services, increasing debt, or selling non-financial assets may be needed to maintain operations.

3.20 The financial/non-financial distinction is generally understood to result in the classification of assets and liabilities, as summarized in **Table 2**.

Figure 4 — Example of Financial/Non-financial Classification

Statement of Financial Position **As at December 31, 20X6**	**20X6**	**20X5**
ASSETS		
Financial assets		
…		
Total financial assets		
Non-financial assets		
…		
Total non-financial assets		
Total assets		
LIABILITIES		
Financial liabilities		
…		
Total financial liabilities		
Non-financial liabilities		
…		
Total non-financial liabilities		
Total liabilities		
Net assets		
NET ASSETS/EQUITY		
Components of net assets/equity		
Total net assets/equity		

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Table 2 – Potentially Financial/Non-financial Distinction[23]

Assets	Liabilities
Financial assets Assets held primarily for their financial capacity to generate cash flows to fund an entity's ongoing service delivery activities or to settle debt obligations. Examples include assets that can be easily converted to cash, such as money in the bank, investments, and accounts receivable.	**Financial liabilities** Liabilities that represent amounts owed to external parties and are expected to be settled using existing or future financial assets. Examples include loans, accounts payable, and other debt instruments.
Non-financial assets Assets held primarily for their operational capacity to support the provision of services over future periods. Examples include property, plant and equipment, and intangible assets.	**Non-current liabilities** Liabilities that are not considered financial liabilities. Examples include provisions and certain obligations for the transfer of future services or goods.

3.21 There is diversity in practice across the public sector in how assets and liabilities are classified as financial or non-financial for presentation purposes. In practice, decisions are often made at the jurisdictional level about what assets and liabilities are classified as 'financial' based on a government's short—and long-term fiscal objectives.

3.22 The financial/non-financial distinction is also used in GFSM 2014 to broadly classify assets for statistical reporting, to differentiate between assets representing financial claims on other entities from tangible or intangible resources owned or controlled by the government to deliver future services to the public.

3.23 GFSM 2014 does not provide a financial/non-financial classification for liabilities because, by definition in GFSM 2014, all liabilities are considered financial as they represent obligations to transfer economic value from one party to another. These obligations arise through contracts, legal requirements, or economic transactions, all of which involve future financial flows.

3.24 GFSM 2014 allows further classification of financial assets and liabilities based on the underlying type of instrument, counterparty, institutional sector, and maturity, in order to provide an understanding of funding sources, liquidity, and supports accurate consolidation of general government or public sector balance sheets.

3.25 The IPSASB acknowledged that classifying assets and liabilities in alignment with GFSM 2014 would require the introduction of a set of new definitions and recognition criteria, which is not in the scope of this project. See Appendix A for more information regarding the IPSASB's work to reduce unnecessary differences.

3.26 The IPSASB noted that in addition to the financial/non-financial alternative, there are other possible approaches for classifying assets and liabilities into broad groups when presenting the Statement of Financial Position. Two different approaches could include:

(a) Classifying assets and liabilities based on whether they are held for:

[23] Descriptions are for illustrative purposes only and are not formal IPSAS definitions.

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(i) Operational purposes — to deliver services directly to the public, such as hospital buildings held for providing healthcare to citizens;

(ii) Investing purposes — to generate inflows of economic benefits, such as long-term bonds, to provide investment returns; and

(iii) Financing purposes — to manage debt, such as loans to fund ongoing activities; or

(b) Classifying assets and liabilities based on the core objectives of the reporting entity. For a central government, this classification could, for example, result in grouping assets and liabilities by the service line they contribute to — such as health, education, economic management, defense, welfare, law enforcement, and environmental protection.

3.27 These other classification approaches provide helpful information about how an entity's assets and liabilities support its objectives. However, the Board considers this type of information better suited to management commentary-type reporting rather than in the financial statements, where a consistent approach is important for accountability and comparability purposes.

3.28 The IPSASB acknowledged the possible benefits of other approaches for classifying assets and liabilities. However, the IPSASB does not see a current need to develop a new classification approach in IPSAS Standards at this time. The requirements in IPSAS Standards should support the consistent classification of assets and liabilities in the Statement of Financial Position across the public sector.

3.29 This preliminary view is based on the understanding that:

(a) The existing current/non-current approach is generally accepted and broadly used across both the for-profit and public sector, with no significant issues arising in practice;

(b) Introducing a new classification approach could disrupt the consistency and comparability of public sector financial statements, making it challenging for users to interpret and compare financial information;

(c) Difficulties will likely arise in reaching an international consensus on generally accepted definitions and criteria for financial and non-financial items, which could ultimately lead to a divergence in practice for those jurisdictions applying IPSAS Standards – and even with consensus, a revised definition may not be fully aligned with GFSM 2014;

(d) The classification outcomes of the current/non-current and financial/non-financial approaches are, in many circumstances, not substantially different; and

(e) IPSAS 1 currently allows an entity the flexibility to disclose alternative classifications of assets and liabilities in the notes.

3.30 Consideration was also given to whether the order of liquidity approach should be retained in IPSAS Standards on an exception basis. It was noted that this approach is currently used by public sector entities such as central banks, as it provides a clearer view of how financial resources are being managed.

3.31 The IPSASB considers that this presentation approach should be retained. However, the new IPSAS Standard should emphasize that the order of liquidity approach is only permitted when it provides a more faithful and relevant representation of an entity's financial position compared to the current/non-current approach.

3.32 The IPSASB also considers the mixed approach currently permitted under IPSAS 1, in which certain assets and liabilities are presented using the current/non-current classification while others are presented in order of liquidity. The IPSASB proposes to continue allowing the mixed approach, as it remains useful for entities

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with diverse operations or asset types where neither classification method alone provides the most relevant presentation.

Preliminary View 5—Chapter 3

The IPSASB's Preliminary View is that:

(a) The current/non-current approach be retained as the general approach for classifying assets and liabilities on the face of the Statement of Financial Position;

(b) The order of liquidity approach be retained, with application permitted on an exception basis; and

(c) The mixed approach be retained to allow some assets and liabilities to be presented using the current/non-current classification, and others are presented in order of liquidity.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed regarding the classification of assets and liabilities on the Statement of Financial Position.

~~Display~~ Presentation of Specific Line Items

3.33 The presentation of the Statement of Financial Position requires the preparer to consider what line items should be displayed on the face of the statement (under each broad classification, as discussed in the previous section). By including minimum display requirements, the Statement of Financial Position is comparable and understandable.

3.34 IPSAS 1 currently requires the following line items to be displayed on the Statement of Financial Position when relevant and material to the reporting entity, as presented in **Table 3**.

Table 3 – Currently Required Line Items in the Statement of Financial Position

Assets	**Liabilities**
Property, plant, and equipment	Taxes and transfers payable
Investment property	Social benefits liabilities
Intangible assets	Payables
Financial assets	Provisions
Investments accounted for using the equity method	Financial liabilities
Inventories	Liabilities included in disposal group classified as held for sale
Receivables	**Components of Net Assets/Equity**[24]
Cash and cash equivalents	Share capital (when applicable)
Total assets classified as held for sale and assets included in disposal groups classified as held for sale	Contributed capital
	Accumulated surpluses or deficits
	Reserves
	Non-controlling interests

[24] It is proposed that the amounts of the components of make-up an entity's net assets/equity shall be displayed in the face of the Statement of Financial Position or disclosed in the notes.

3.35 The following general principles are relevant when applying the requirement to display specific line items as prescribed by IPSAS 1.

(a) The line items only require disclosure if they are material;

(b) Additional line items shall be presented when such a presentation is relevant to understanding the entity's financial position;

(c) Decisions about the presentation of line items should be based on their size, nature, or function and relevance; and

(d) The description of line items shall be amended based on the nature of the entity and its transactions.

3.36 The IPSASB considers that the specific line items currently required by IPSAS 1 to be displayed on the Statement of Financial Position (when relevant and material) continue to be fit for purpose. The IPSASB proposes that a new line should be added for goodwill to distinguish this asset from other intangible assets. This new line item would ensure that the new IPSAS Standard maintains appropriate alignment with equivalent requirements in IFRS 18.

3.37 The IPSASB also considered whether to revise presentation requirements to better align with GFSM 2014. At a high level, the presentation requirements regarding line items for assets and liabilities are broadly similar between IPSAS 1 and GFSM 2014. However, there are underlying differences in definition and classification (as noted in paragraphs 3.22-3.25), and the more detailed and prescriptive aggregation requirements in GFSM 2014. These differences exist as a result of the different objectives of the two reporting frameworks, and requirements regarding the level of aggregation or disaggregation to apply.

3.38 Nonetheless, the IPSASB recognizes that the existing principles and requirements in IPSAS 1 for selecting and presenting line items in the financial statements and notes provide sufficient flexibility to enable a reporting entity to adopt a presentation approach that seeks to align, to the extent possible, with the line items in GFSM 2014.

Preliminary View 6—Chapter 3

The IPSASB's Preliminary View is that the specific line items required in IPSAS 1 should be carried forward, with enhancements limited to adding a new line for goodwill (to align with IFRS 18).

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons, and clearly explain what line items should be added or removed from the list provided in Table 3.

Structure and Presentation of Subtotals

3.39 An appropriate structure for presenting the Statement of Financial Position (i.e., its order and format) helps ensure that information is presented in a logical and systematic manner. This assists the user in accessing the information needed in response to their specific needs.

3.40 Financial statements are often structured in a particular order to allow for reporting specific subtotals. Displaying subtotals within the Statement of Financial Position can help users assess different aspects of an entity's financial position. Subtotals are often used to present specific measures or indicators based on jurisdictional or entity-level considerations.

3.41 IPSAS 1 does not currently prescribe a structure for presenting the Statement of Financial Position or require the ~~display~~ presentation of any specific subtotals. Instead, IPSAS 1 provides ~~the~~ flexibility for an entity to

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develop its own structure and subtotals based on its nature and user needs[25], which is consistent with IFRS 18.

Presentation of Net Debt

3.42 Through outreach activities, we have noted the call from some stakeholders for the IPSASB to consider developing requirements that support the presentation of 'net debt' as a specific subtotal on the face of the Statement of Financial Position. Net debt is a common indicator used by policymakers, economists, and analysts to assess an entity's overall indebtedness and ability to meet its future financial obligations.

3.43 Net debt is broadly understood to be the difference between an entity's financial assets and financial liabilities. Net debt is an important measure of the government's health and sustainability. If the government's financial assets exceed its liabilities, it indicates that net financial assets are available to support the delivery of future activities and to satisfy debt repayment obligations.

3.44 To mandate net debt as a subtotal, which ~~must~~ could be displayed on the face of the Statement of Financial Position, would necessitate a specific presentation structure being prescribed, as illustrated in **Figure 5**.

Figure 5 — Illustration of Net Debt Presentation

Statement of Financial Position As at December 31, 20X6	20X6	20X5
Financial assets		
Less Financial liabilities		
Net Debt		
Plus non-financial assets		
Less non-financial liabilities		
Net assets		
Components of net assets/equity		
Total net assets/equity		

3.45 To introduce such a structure, the IPSASB would need to develop definitions and criteria for applying a financial/non-financial approach to classifying assets and liabilities (as discussed in paragraphs 3.16-3.27).

3.46 The reporting of net debt as a specific subtotal on the face of the Statement of Financial Position would also be difficult when applying the current structure as provided in IPSAS 1 (as illustrated in **Figure 3**), which focuses on presenting an entity's 'total assets' and 'total liabilities'.

3.47 GFSM 2014 does not require the presentation of subtotals. However, GFSM 2014 allows the recognition of memorandum items to provide supplemental information about items (such as aggregates and balancing items) related to, but not included on, the balance sheet, that are similar in nature to subtotals. Examples of these items are gross debt, net worth, net financial worth, and net debt.

3.48 The IPSASB acknowledged that enabling the presentation of these measures on the face of the Ss~~s~~tatement of ~~f~~Financial ~~p~~Position, along with the components used in their calculation, would necessitate significant changes to IPSAS Standards requirements. Particularly, this approach would require the introduction of definitions and recognition criteria for financial and non-financial items, which the IPSASB does not intend to pursue (see rationale outlined in paragraphs 3.25 and 3.29).

3.49 Nonetheless, the IPSASB recognized that existing IPSAS 1 principles and requirements for selecting and presenting subtotals in the financial statements and notes provide sufficient flexibility to enable a reporting entity to present subtotals that seeks to align, to the extent possible, with the memorandum items in GFSM 2014 if it wishes to do so.

[25] The presentation of additional headings and subtotals is permitted (and encouraged) if such a presentation is necessary for the Statement of Financial Position to provide a useful summary of an entity's assets, liabilities, and net assets/equity.

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Preliminary View

3.50 The IPSASB considers that prescribing a structure for presenting the Statement of Financial Position or mandating the ~~display~~ presentation of specific subtotals would not significantly enhance the transparency, understandability, and usefulness of public sector financial statements.

3.51 Structure:

(a) The underlying principles for preparing general purpose financial statements, together with the specific requirements for classifying assets and liabilities and displaying specific line items, provide an appropriate baseline for presenting the Statement of Financial Position. Reporting entities should continue to have the flexibility to tailor the structure of the Statement of Financial Position based on its specific circumstances, user needs, and local jurisdictional considerations.

(b) IPSAS 1 provides illustrative examples of different financial statement presentation formats. This guidance serves as a useful 'benchmark' for how the primary financial statements should be structured, supporting appropriate consistency in presentation across the public sector.

3.52 Subtotals:

(a) The IPSASB does not consider it useful or feasible to define specific subtotals to assess different aspects of an entity's financial position (such as 'net debt') because these indicators are often measured based on local jurisdictional considerations. It would, therefore, be difficult for the IPSASB to develop a definition of net debt that would be generally accepted and consistently applied across the public sector internationally.

(b) The IPSASB notes that an entity may choose to present different measures of its financial position in the notes if the components of their calculation are drawn directly from line items presented in the financial statements prepared in accordance with IPSAS Standards.

(c) Although the presentation of specific subtotals has not been proposed, new general guidance has been developed to support the appropriate use of subtotals. This guidance sets out that any subtotal presented in the Statement of Financial Position shall:

(i) Comprise amounts recognized and measured in accordance with IPSAS Standards;

(ii) Be compatible with the classification of assets and liabilities;

(iii) Be consistent from period to period; and

(iv) Be displayed no more prominently than specific totals and subtotals required by IPSAS Standards.

Preliminary View 7—Chapter 3

The IPSASB's preliminary view is that IPSAS Standard should:

(a) Not prescribe a specific structure (i.e. order or format) for presenting the Statement of Financial Position; and

(b) Not require the ~~display~~ presentation of specific subtotals on the Statement of Financial Position.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed regarding the structure and the presentation of specific subtotals.

3.53 As an overall outcome of the Preliminary Views in this Chapter, the proposed requirements for presenting the Statement of Financial Position (as provided in the illustrative ED) are both aligned with IFRS 18 and consistent with existing requirements in IPSAS 1.

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Chapter 4: Statement of Financial Performance

Introduction

4.1 Information about the financial performance of a reporting entity helps their financial statement users assess the following, to support accountability and decision-making purposes:

(a) Whether the entity has acquired resources economically, and used them efficiently, effectively, and as intended, to achieve its service delivery, other operating, and financial objectives;

(b) Whether the entity has effectively managed the resources it is responsible for, and complied with the relevant budgetary, legislative, and other authority regulating the raising and use of resources;

(c) Whether the range, volume, and costs of services provided during the reporting period are appropriate, and the amounts and sources of cost recovery; and

(d) Whether the entity's resources are sufficient to maintain the volume and quality of services currently provided in future periods, and if they increase the entity's indebtedness level.

4.2 Financial performance is reflected by the entity's revenue and expense[26] items in the reporting period. IPSAS Standards currently require an entity to present revenue and expense items on one of two Statements:

(a) Statement of Financial Performance[27] – This Statement presents revenue and expense items recognized in the reporting period, in surplus or deficit.

(b) Statement of Changes in Net Assets/Equity – This Statement presents revenue and expense items recognized in the reporting period, outside surplus or deficit, directly in net assets/equity.

4.3 This Chapter explores potential presentation requirements regarding financial performance information on the Statement of Financial Performance, and presents the IPSASB's considerations and conclusions on how best to enhance the presentation requirements to better support users of financial statements. Chapter 5 explores the potential presentation requirements regarding financial performance information on the Statement of Changes in Net Assets/Equity.

4.4 The Statement of Financial Performance aims to provide a structured overview of a reporting entity's revenue and expense items during the reporting period, together with comparative information – a summarized version of this Statement is illustrated in **Figure 1**.

Figure 1 – Illustrative Statement of Financial Performance

Statement of Financial Performance For the year ended December 31, 20X46 Revenue Expenses	**20X46** CU	**20X35** CU
Surplus/(Deficit) for the period from continuing operations (Gain)/Loss for the period from discontinued operations		
Surplus/(Deficit) for the period		

[26] 'Revenue' is a gross inflow of economic benefits or service potential during the reporting period which results in an increase in the net financial position of the entity, other than increases arising from ownership contributions. 'Expense' is a decrease in economic benefits or service potential during the reporting period which decreases the net financial position of the entity, other than decreases arising from ownership distributions.

[27] The Statement of Financial Performance may also be referred to as a 'statement of revenues and expenses', 'income statement', 'operating statement', or 'profit and loss statement'.

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4.5 To advance the objectives of this project (as noted in Chapter 1), the IPSASB considered the following core aspects of presenting information on the Statement of Financial Performance:

(a) Classification of Revenue and Expense Items;

(b) Presentation of Totals and Subtotals; and

(c) Presentation of Line Items.

Classification of Revenue and Expense Items

4.6 The Conceptual Framework provides general principles for displaying information in the financial statements, noting that displayed information should be concise, understandable, and prominently presented. The Conceptual Framework also acknowledges that the development of presentation requirements requires a balance between standardized requirements (to facilitate understandability and meet the objectives of financial reporting across all entities) and entity-specific needs (to reflect the nature and operations of specific entities).

4.7 IPSAS 1 currently requires entities to present all revenue and expense items in surplus or deficit, unless another IPSAS Standard requires otherwise. IPSAS 1 sets minimum presentation and disclosure requirements, allowing substantial flexibility for public sector entities to present and disclose additional information it deems material and relevant to its financial statement users and faithfully representative of that information.

4.8 The Statement of Financial Performance is a key source of financial information to help financial statement users obtain an understandable overview and relevant information to support their analysis and decision-making needs, as articulated in paragraph 4.1. However, the lack of specific guidance has resulted in diversity in practice in the presentation of revenue and expense items on the Statement of Financial Performance. This poses challenges for users of financial statements to understand, analyze, and compare financial performance information that reflects the unique characteristics of the public sector (see Appendix B).

Conceptual Benefits of Categorization

4.9 The objective and role of financial statements are to provide financial information about a reporting entity that is useful for financial statement users for accountability and decision-making purposes. Structure, through the categorization of information, has previously proven useful for public sector financial statement users to better understand information in primary financial statements. The IPSASB considered whether requiring categorization on the Statement of Financial Performance could also improve how information is presented to provide more useful, relevant, and comparable information for public sector financial statement users.

4.10 Conceptually, categorization would bring a more structured presentation of revenue and expense items than what is currently achieved by IPSAS 1 requirements to support user needs. The IPSASB generally agreed that, conceptually, requiring reporting entities to present its revenue and expense items recognized in surplus or deficit in distinct categories would:

(a) **Reduce diversity in current financial reporting**, to improve the comparability of information across similar entities (e.g., by remit or industry) within or across jurisdictions, and help users assess performance against relevant metrics and benchmarks; and

(b) **Support financial statement users information needs and effective public financial management**, by providing a clearer picture of how a reporting entity is managing its resources, executing its roles, and conducting its activities in the current and future periods. By doing so, users can more effectively understand, analyze, and objectively compare information to hold the entity accountable to achieving its service delivery objectives and effectively serving its constituents with

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available resources, including the long-term sustainability of its finances and key programs, and make informed decisions.

4.11 Categorizing financial information in the Statement of Financial Performance would also be consistent with the Conceptual Framework, which notes that effective grouping of information considers the nature of and linkages between information sets, and jurisdiction-specific factors (to the extent appropriate).

4.12 Thus, the IPSASB concluded that conceptually, categorization would help financial statement users better understand, analyze, and compare financial performance information to support accountability and decision-making. The IPSASB then considered how categorization would be applied in practice in the public sector.

Challenges Identifying Standardized Categories for the Public Sector

4.13 Practically, it is necessary to identify broad standardized categories that are appropriate for a wide range of public sector entities internationally to achieve the intended benefits and effectively help financial statement users better understand, analyze, and compare the financial information presented.

4.14 While most public sector entities have the primary function of providing services to enhance and maintain the well-being of citizens and other eligible residents, the public sector internationally is comprised of a wide range of entities (including but not limited to national, regional, and local governments, programs, commissions, agencies, and intergovernmental organizations). These entities may differ in their nature, service delivery objective, jurisdiction-specific factors. Consequently, the primary users[28] of financial statements will differ by entity, as entities serve potentially different groups of service recipients and resource providers.

4.15 These differences directly influence an entity's considerations regarding what information would meet the needs of its financial statement users. Balance is crucial, as some information may be of more interest or greater use to some users than others. See Appendix B for examples.

4.16 The different service recipients and resource providers, and their varying information needs, pose several challenges in identifying appropriate standardized categories. In particular:

(a) **Comparability**: which standardized categories would provide the appropriate level of comparability of financial information? For example, a regional development bank or government may compare similar entities (e.g., municipality 1 vs. municipality 2) to understand how they deliver similar public services to their respective services recipients, to support its funding decisions. In contrast, a lender or grantor may compare different entities (e.g., ministry of transport vs. ministry of infrastructure) to determine which entity may more effectively use the funding to meet a specific objective.

(b) **Clear communication**: which standardized categories would effectively structure financial information to provide a clear picture of an entity's financial performance for the period? For example, a citizen receiving public services in one jurisdiction may wish to see its government's revenues and expenses presented by the public service (e.g., transportation or social housing). However, a taxpayer in another jurisdiction may wish to see its government's revenues and expenses presented by the type of economic resources consumed (e.g., salary or materials). Other service recipients may wish to see both function and nature of these items. The introduction of standardized categories would provide a

[28] Throughout the CP, the terms ~~and~~ 'primary users' and 'users' refer to those service recipients and their representatives and resource providers and their representatives who must rely on general purpose financial reports for much of the financial information they need. This is consistent with the IPSASB's Conceptual Framework and IPSAS Standards, and the IPSASB's recent decision on Phase 1 of its Making Material Judgments project and the IASB's decision in developing IFRS 18, that the terms 'primary users' and 'users' are intended to be interpreted the same way within the respective accounting standards.

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comparable measure of financial performance, in an understandable way, and a useful starting point for users' analysis, to support their accountability and decision-making needs.

Potential Categorization Approaches to Support User Needs

4.17 In line with its Project Drivers (Chapter 1, Table 2), the IPSASB considered whether to develop new presentation requirements for the Statement of Financial Performance that:

(a) Better align with IFRS 18 requirements[29] with any necessary public sector guidance or adaptations;

(b) Better align with Government Finance Statistics Manual 2014 (GFSM 2014) requirements to reduce unnecessary differences as appropriate; or

(c) Are different and unique for public sector financial reporting.

[A] Aligning with IFRS 18 Categories

4.18 If presentation requirements are aligned with IFRS 18, public sector entities would be required to categorize its revenue and expense items on the Statement of Financial Performance into five specific categories (of which Operating, Investing, and Financing are new categories). **Table 1** provides a summary of how each category provides financial statement users with relevant and useful information to support accountability and decision-making, and examples of public sector revenue and expense items that may be classified in each category.

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[29] The existing requirements in IPSAS 1 for the Statement of Financial Performance, which were primarily aligned with IAS 1 *Presentation of Financial Statements*, are not aligned with IFRS 18. IFRS 18 evolved the presentation landscape in the private sector in response to the information needs of financial statement users, by introducing a more formal structure to its Statement of Profit or Loss to address similar challenges by reducing diversity, improving comparability and communications, thereby supporting user analysis.

Table 1 – Categorization of Revenue and Expenses in Alignment with IFRS 18

Category	Presents financial statement users information about…	Examples of public sector transactions that generate revenues and expenses in this Category
Operating	Revenues received and expenses incurred in delivering the entity's core public service delivery objectives, including whether the current levels of revenues are sufficient to maintain the volume and quality of services currently provided, to assess its performance of its core service delivery objectives.	All revenue and expenses in the reporting period that are not classified into the other four categories, such as revenues and expenses from: • Operations and activities to achieve service delivery objectives, accounted for using a variety of standards (including but not limited to IPSAS 47, *Revenue* and IPSAS 48, *Transfer Expenses*) • Consumption, depreciation and amortization of assets accounted for under various IPSAS Standards
Investing	Revenues and expenses arising from investments of resources to maintain service delivery over the medium and long term. These investment returns are generated individually and largely independently from the reporting entity's operations.	Revenues and expenses from: • Debt and equity investments under IPSAS 41, *Financial Instruments* • Investments in associates and joint ventures under IPSAS 36, *Investments in Associates and Joint Ventures* • Investment properties accounted for under IPSAS 16, *Investment Property*
Financing	Revenues and expenses from the effects of financing, arising from liabilities from transactions involving only the raising of finance, and other liabilities that do not only involve raising finance.	Revenues and expenses from: • Loans and bonds under IPSAS 41 • Lease liabilities under IPSAS 43, *Leases* • Pension liabilities under IPSAS 39, *Employee Benefits* and IPSAS 49, *Retirement Benefit Plans*
Income Taxes	For public sector entities subject to income taxes, any ~~revenues and~~ expenses from income taxes.	~~Revenues and e~~Expenses from: • From income tax requirements, according to relevant international or national accounting standards
Discontinued Operations	Revenues or expenses from the reporting entity's discontinued operations.	Revenues and expenses from: • From discontinued operations under IPSAS 44, *Non-current Assets Held for Sale and Discontinued Operations*

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4.19 This new presentation requirement to classify revenue and expense items in these categories provides prescriptive guidance to help reporting entities classify revenues and expenses in a consistent manner, to achieve comparability across Statements of Financial Performance. These categories, which are not required labels, also provide flexibility: if an entity does not have investment returns, then it would not need to present an Investing category. Thus, presenting financial performance information using these broad but standardized categories would also effectively meet the needs of users of public sector financial statements. This:

(a) Would ensure that reporting entities provide more useful and understandable information to its financial statement users by presenting key measures of its operations, investment returns, and effects of financing separately; and

(b) Sets the Operating category as the "residual" category comprised of all revenues and expenses not presented in the other categories, which reflects that a reporting entity's operations include many different roles, responsibilities, and activities. Thus, an entity's performance in executing these roles, responsibilities, and activities is a focus area for users of financial statements.

4.20 To effectively provide users with useful and relevant information about its financial performance, a public sector entity should also consider its main operating activities to determine whether certain revenues and expenses should be classified in the Operating category that would otherwise have been in the Investing or Financing categories. To identify its main operating activities, a public sector entity should consider whether information about the activity is used as an important indicator of its performance for assessment, monitoring, or reporting purposes. Thus, a main operating activity for one public sector entity may not be a main operating activity for another, and each entity should use judgment, considering facts and circumstances to identify its main operating activities.

4.21 **Table 2** lists two specified main operating activities that a public sector entity may engage in to achieve its service delivery objectives or policy goals, which would prompt that entity to apply additional guidance to appropriately reflect its financial performance in the Statement of Financial Performance.

Table 2 – Specified Main Operating Activities

Specified Main Operating Activities	Additional guidance would…	Examples of public sector entities with this main operating activity
Investing in particular types of assets ("investing in assets")	Require entities with this main operating activity to classify certain revenues and expenses into the Operating category (that would otherwise have been classified into the Investing category).	• Holding property to earn rental or for capital appreciation in accordance with IPSAS 16 (e.g., managing a government's property portfolio on a commercial basis, or using funds generated to finance other service delivery activities). • Representing or supporting the interests of a wider group of investors, applying IPSAS 35, *Consolidated Financial Statements* (e.g., pension funds, government investment funds or trusts).
Providing financing to other parties	Require entities with this main operating activity to classify certain revenues and expenses into the Operating category (that would otherwise have been classified into the Financing category).	• Granting financing or entering into lending agreements to support government assistance programs or achieve specific objectives or policy goals in accordance with IPSAS 41 (e.g., concessionary loans to students, small businesses, or other government entities). • Providing financing or entering into concessionary leases to support affordable housing initiatives or achieve specific service delivery objectives, applying IPSAS 43.

4.22 This additional guidance would require public sector entities that conduct these main operating activities to classify certain revenues and expenses into the Operating category (that would otherwise have been in other categories) to provide a better indicator of the entity's overall performance in the reporting period. By doing so, the entity would more appropriately reflect the purpose of these underlying transactions as indicators of the entity's activities towards achieving its service delivery objectives. This would result in the presentation of information that is more useful and relevant to financial statements users for their analysis and decision making.

4.23 To help public sector entities categorize their revenue and expense items to achieve that outcome, the IPSASB proposes to provide additional public sector guidance to the future IPSAS Standard replacing IPSAS 1 to:

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(a) Prompt reporting entities to consider the nature and substance of the revenue or expense item and from what it arises. For example, if an entity receives revenue subject to appropriations, the entity should consider its nature and substance to determine whether it is an investment return (to be classified in the Investing category) or from operations (to be classified in the Operating category);

(b) Prompt reporting entities that earn tax revenues to ~~apply professional judgment,~~ consider~~ing~~ the nature, substance, and materiality of such revenues, to effectively categorize and present this information to users of its financial statements. For example, a national government may consider taxation as a funding mechanism and increase tax rates to collect higher tax revenues to fund its service delivery objectives. However, tax revenues would likely not meet the IFRS 18 requirements to be classified in the Financing category, and instead be classified in the Operating category. Additional guidance would help public sector entities understand how tax revenues would be categorized[30];

(c) Clarify whether and how other public sector accounting concepts are relevant to the categorization of revenue and expense items. For example, whether an asset is held primarily for its operational or financial capacity directly impacts asset measurement considerations under IPSAS Standards, but does not necessarily dictate the presentation of revenues or expenses from those assets in the Operating or Financing category[31];

(d) Provide specific public sector examples, to illustrate how revenue or expense items may be classified into these categories, with reference to applicable IPSAS Standards for those related transactions. These illustrative examples can build on the examples described in **Table 1** and be complemented by broad illustrative statements in Appendix C; and

(e) Provide specific public sector examples, to help entities determine whether they invest in assets or provide financing to other parties as a main operating activity to identify when they should classify certain revenue and expense items into the Operating category (that would otherwise have been in other categories). These examples can leverage those in **Table 2**.

[B] Aligning with GFSM 2014 Categories

4.24 To align the presentation requirements for the Statement of Financial Performance with GFSM 2014 presentation requirements, it would be necessary to address some key differences between the two frameworks and their statements:

(a) The GFSM 2014 Statement of Operations is similar, but not equivalent to, the IPSAS Statement of Financial Performance as they present different information, serve somewhat different objectives, and are not directly comparable (see Appendix A);

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[30] In some jurisdictions, the raising of taxes, like the issuance of debt, may be generally described as financing in the public financial management context and for the fiscal strategy of national governments. However, in the accounting context, taxes do not explicitly meet the specific requirements under IFRS 18 to be categorized as 'financing' revenue because these revenues are not arising from liabilities from (1) transactions where the entity receives financing (in the form of cash or extinguishment of a financial liability) *and* must return that financing at a later date, or (2) transactions such as payables for goods or services that will be settled in cash, contract liabilities, lease liabilities, defined benefit pension liabilities, or provision.

[31] Revenue and expenses from an asset held primarily for its financial capacity is not necessarily classified in the Financing category. The reporting entity would need to consider the asset itself. For example, a public sector hospital may operate one building on a commercial basis, and conclude that the building is held primarily for financial capacity. However, since the hospital is still operating that building to achieve its service delivery objective (providing healthcare services), the revenues and expenses from that building would likely be classified in the Operating category. As another example, a municipal government may hold a piece of land with the sole intention of earning rental income and capital appreciation and conclude that the land is held primarily for financial capacity. However, since this land likely meets the definition of an investment property, the revenue and expenses from that land would likely be classified in the Investing category (so long as investing in investment properties is not a main operating activity of the municipal government).

(b) The identification and recognition of revenues and expenses partially differ, including the timing of recognition. Thus, some revenues and expenses recognized in the Statement of Financial Performance under IPSAS Standards are:

(i) Considered other economic flows (and not revenue and expenses) under GFSM 2014; and

(ii) Recognized at different points in time under GFSM 2014; and

(c) How revenues and expenses are measured can differ.

4.25 To align with GFSM 2014's presentation of revenue and expenses in the "'Items recognized in surplus or deficit'" section of its Statement of Operations, public sector entities would be required to present revenue items and expense items as two separate subsections. Public sector entities would also need to apply a new, specific set of classification and aggregation requirements based on the economic nature of each revenue and expense item presented within that category.

4.26 The IPSASB acknowledged that while this approach could in theory 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, there would be important drawbacks in practice.

4.27 Nevertheless, the IPSASB highlights that IPSAS Standards-based accounting data can always be used as source data for statistical compilation of the GFSM 2014 Statement of Operations in specific circumstances (see more details in Appendix A).

[C] Developing Public Sector Specific Categories

4.28 The IPSASB considered whether to develop a unique set of standardized categories for use by public sector reporting entities. Requiring standardized categories unique to the public sector, that differ from or adapt IFRS 18 categories, may better reflect the overall objectives, roles, and activities of public sector entities in its current and future periods, thereby providing financial statement users with more relevant and useful information about its financial performance.

4.29 Any unique set of standardized categories for the public sector must:

(a) Be conceptually sound and sufficiently broad, to offer comparability while balancing diverse financial statement user needs, in order to be useful. This acknowledges that public sector entities vary widely in their service delivery objectives with varying groups of users and information needs. Since entities may provide different services to different recipients and have different resource providers, it is very likely that what may be useful for one set of users, may not be for another. Thus, the selected set of standardized categories should be as widely applicable as possible to achieve broad international consensus; and

(b) Be clearer, more applicable, and better able to achieve the objective of financial reporting on the Statement of Financial Performance to warrant deviation from IFRS 18.

4.30 To identify a unique set of standardized public-sector-specific categories, the IPSASB considered the following:

(a) Use "Operating" and "Non-operating" (or "Operating" and "Investing and Financing") – Adapting IFRS 18 categories by combining or renaming categories may better emphasize the importance of financial information about an entity's performance to assess whether it is achieving its public sector objectives. For example, combining Investing and Financing would communicate the concept of net funding, and how the entity accesses resources (by borrowing through financing, or investing for future inflow). However, the IPSASB has not been able to reach a consensus to define (and thus delineate between) operating and non-operating, which poses challenges in using this delineation for

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categorization of revenue and expenses. ~~–~~Furthermore, merging the Investing and Financing categories would obscure information about investments and effects of financing, thereby reducing communication effectiveness.

(b) Use "Operating", "Investing", and "Funding" – Adapting IFRS 18 categories by revising the composition and naming of categories may better highlight that public sector entities aim to achieve and acquire resources to support both current and future service delivery objectives. This adaptation splits the IFRS 18 Operating category into two categories (one presents information related to current operating capacity changes and current services, while the other presents information about future operating capacity changes or investments in future services that are not capitalized), and combines IFRS 18's Investing and Financing categories into a public sector "Funding" category (to present information about activities to provide funding for future services from investment returns and effects of financing). The IPSASB noted that this adaptation poses similar challenges as paragraph 4.30(a), and may also have wider implications, as users may be confused by different categorization of revenues and expenses in IPSAS Standards vs. IFRS Accounting Standards despite same or similar nature or substance, and may lead to negative impacts on the ability of public sector entities to access the capital markets effectively and efficiently.

(c) Require a standalone category for Taxes – The ability to levy taxes is unique to the public sector and taxes, which include compulsory contributions and levies. Taxes are a major source of revenue for governments. Since taxes are a prevalent transaction in the public sector, it may merit a standalone category to present these revenues separately from other revenues (that would be classified in the IFRS 18 categories) and ~~from~~ related expenses to deliver on the entity's core service delivery objectives and programs (that may be partially or fully funded by those tax revenues). Presenting these tax revenues in a separate category could provide useful information on how ~~the~~ an entity is funded (e.g., from tax revenue subject to appropriations, or other sources of revenue). ~~, and how much of its~~ However, the IPSASB noted that in practice, tax revenues (whether through direct collection or appropriations) fund a broad range of expenses, and identifying which expenses are covered by those tax revenues or other revenues may be difficult if not infeasible, and may not be consistent with the IPSASB Conceptual Framework. ~~In considering challenges identifying standardized categories (paragraphs 4.13-4.16), the IPSASB acknowledged that the public sector is comprised of a broad range of entities and their users may have different information needs. Requiring a standalone category for taxes would therefore be useful for financial statement users of entities that levy or collect taxes. However~~Furthermore, requiring a standalone category for taxes may not sufficiently address the challenges (paragraphs 4.13-4.16) and needs of the broad range of entities in the public sector. A standalone category for taxes may be less useful for financial statement users of other entities that do not engage levy or collect taxes, because the presentation of revenue and expenses in IFRS 18 categories can also effectively provide useful information on how the entity is funded and how much of its expenses are covered by those revenues.

(d) Use existing concepts developed for other IPSAS Standards, such as "Operational vs. Financial Capacity" or "Exchange vs. Non-exchange" – These concepts reflect the public sector but were developed with specific applications in mind (e.g., measurement based on primary reason for holding assets, or accounting based on economic substance of transactions). Presenting revenue and expense items using these concepts would not provide clear or useful information for financial statement users, nor be appropriate for wider application to categorizing financial performance.

(e) Allow individual jurisdictions to determine and require categories deemed appropriate for their entities – While this may acknowledge the diversity of public sector entities and jurisdictional differences, it would not reduce diversity of reporting in practice, nor improve comparability, understandability, and usefulness of information presented for financial statement users.

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4.31 Based on its research and deliberations, the IPSASB acknowledged overarching challenges in developing a conceptually sound and practical alternative to IFRS 18 categorizations that could receive international consensus, and avoid confusion caused by diverging from IFRS Accounting Standards despite the strong alignment between IPSAS Standards and IFRS Accounting Standards.

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4.32 The IPSASB summarized the benefits and drawbacks of the potential approaches, in **Table 3**.

Table 3 – Benefits and Drawbacks to the Potential Categorization Approaches

Potential Approach	Overall Analysis	Benefits	Drawbacks
Aligning with IFRS 18 Categories (paragraphs 4.18-4.23)	Appropriate for the public sector, with additional public sector specific guidance	✓ Is applicable and usable for all types of public sector entities. All public sector entities receive revenue or incur expenses in at least one of the Operating (to deliver its service delivery objectives), Investing (from investments of resources to maintain its service delivery levels), and Financing (from servicing debt obligations) categories ✓ Provides financial statement users with more useful and relevant information about the public sector entity's financial performance ✓ Reflects that underlying accounting principles are primarily IFRS-aligned ✓ Offers comparability across capital markets to help access capital	○ Requires additional guidance to help public sector entities effectively categorize its revenues and expenses, to achieve greater usefulness, understandability, and comparability for users of the financial statements
Aligning with GFSM 2014 Categories (paragraphs 4.24-4.27)	Effective alignment can only be achieved through substantial and comprehensive review of IPSAS Standard accounting principles, which is outside the scope of this project	✓ Standardizes presentation and increases comparability across public sector entities	○ Does not achieve alignment in substance with section 1 of GFSM 2014 Statement of Operations, without also considering changes to the underlying accounting principles ○ Prescribes a specific and rigid presentation structure that may not be applicable for all public sector entities
Developing Public Sector Specific Categories (paragraphs 4.28-4.31)	A unique set of broad standardized categories could not be identified	✓ Could provide a more meaningful representation of public sector financial performance	○ May not be able to identify a sound and practical set of broad standardized categories unique to public sector that receives international consensus and overcomes the conceptual challenges identified ○ May cause confusion by diverging from IFRS Accounting Standards despite strong alignment between underlying principles, which may impact the ability of public sector entities to access capital markets effectively and efficiently

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4.33 Based on this assessment, the IPSASB concluded that developing new presentation requirements for the Statement of Financial Performance, aligned with IFRS 18 with additional public sector guidance, would introduce a more formal structure to better support financial statement users in understanding, analyzing, and comparing financial performance information for accountability and decision-making purposes.

Preliminary View 8—Chapter 4

The IPSASB's preliminary view is to present revenue and expense items recognized in surplus or deficit in categories on the Statement of Financial Performance. The categorization requirements are aligned with IFRS 18 requirements, with additional public sector guidance.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed (for example, if you prefer a specific public-sector specific categorization, such as those considered in paragraph 4.30, please explain why it would meet the criteria in paragraph 4.29).

Presentation of Totals and Subtotals

4.34 Users of financial statements often use the totals and subtotals presented on financial statements as a starting point for their information needs, to obtain a meaningful understanding of the reporting entity's financial performance and more consistently and objectively analyze and compare information for accountability and decision-making purposes.

4.35 IPSAS 1 requires entities to present on the Statement of Financial Performance the surplus or deficit total and permits entities to present additional subtotals deemed relevant. The IPSASB noted that the presentation of totals and subtotals directly corresponds to the proposed presentation of revenue and expense items in categories. The following total and subtotal requirements would correspond with the IPSASB's preliminary view to align with IFRS 18 categorization requirements, with additional public sector guidance, and are illustrated in **Figure 2**:

(a) Retain the IPSAS 1 requirement for public sector entities to present the **'surplus or deficit' total**, as it remains a useful and fundamental metric for financial statement users to understand the entity's overall financial performance;

(b) Introduce a new requirement for entities to present the '**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 achieve future service delivery activities and objectives, consistent with Chapter 2 of the Conceptual Framework. This subtotal would provide financial

Figure 2 – Illustrative Example of the Statement of Financial Performance with the Proposed Totals and Subtotals

Public Sector Entity *For the year ended December 31, 20X46*		
Taxes revenue	500	Operating
Other revenue	80	
Wages expenses	(200)	
Operating expenses	(300)	
Other expenses	(58)	
Operating surplus or deficit	**22**	
Investment income	15	Investing
Investment expenses	(13)	
Interest expense on loan	(21)	Financing
Surplus or deficit	**3**	

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statement users with comparable measures of financial performance as starting points for their analysis.[32]

(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 are 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.

4.36 The IPSASB does not propose to introduce a requirement for entities to present '**surplus or deficit before financing**' **subtotal**, similar to 'profit or loss before financing and income taxes' under IFRS 18, as members are of the view that this subtotal may communicate a profitability narrative which is not appropriate nor relevant in the public sector. However, IPSASB members note that if an entity concludes that this subtotal would provide useful information to the users of its financial statements, it would still be permitted to present it in accordance with paragraph 4.35(c).

4.37 Requiring these total and subtotal would enhance the benefits of categorizing revenue and expenses on the Statement of Financial Performance. Together, the categorization requirements and totals and subtotals requirements based on that categorization enhance the coherence and comparability of the Statement across public sector entities. This improved structure reduces diversity in reporting, thereby providing more useful information for financial statement users to understand, analyze, and compare financial performance.

Preliminary View 9—Chapter 4

The IPSASB's preliminary view is to present totals and subtotals, and to permit entities to present additional subtotals, on the Statement of Financial Performance, as listed in paragraph 4.35. The total and subtotal requirements are aligned with IFRS 18 requirements, adapted for the public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Presentation of Line Items

4.38 Individual financial statement line items, which present groupings of transactions with common or shared characteristics, provide financial statement users with information to understand the entity's material revenue and expense items, enable comparisons and analyses, and identify where they may wish to seek additional information in the notes. This financial information is crucial to help financial statement users understand and assess the costs of service delivery, the amounts and sources of cost recovery during the reporting period, and the resources acquired and used to efficiently and effectively achieve service delivery objectives.

Presentation of Minimum Line Items

4.39 IPSAS 1 provides minimum requirements regarding the presentation of line items on Statement of Financial Performance, and allowing entities to include additional line items that help users understand the entity's performance in the current period and its ability to meet service delivery obligations, and requiring separate disclosure of specific items.

4.40 The IPSASB acknowledged that these requirements continue to be fit for purpose, operate effectively in practice, and remain effective and appropriate, and thus do not require substantial change. Considering its

[32] An 'operating surplus or deficit' subtotal may also serve as a starting point for reconciling cash flows from operating activities in the Cash Flow Statement. The IPSASB will consider constituent feedback to identify consequential amendments to IPSAS 2 in the next Phase of the project.

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preliminary view to introduce the requirement to categorize revenue and expense items and align with other IFRS 18 requirements, with additional public sector guidance, the IPSASB proposes to:

(a) Retain the existing IPSAS 1 presentation requirements, but in the context of the new categorization requirements; and

(b) Add new application guidance to help entities determine whether to present additional line items to provide a more useful structured summary of its revenue and expense items.

4.41 In doing so, these presentation requirements would align with IFRS 18, which did not substantially change equivalent IAS 1 guidance, and adapts IFRS 18 guidance for the public sector.

4.42 The IPSASB also considered whether to introduce requirements aligned with GFSM 2014, noting that such an approach would require the introduction of a detailed and prescriptive set of requirements to classify and aggregate revenue and expenses into standardized line items. While this would result in a standardized 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 because of underlying recognition and classification differences (Appendix A). Aligning the presentation of line items does not necessarily align the substance of those line items, so the IPSASB does not propose to pursue this approach.

Preliminary View 10—Chapter 4

The IPSASB's preliminary view is to maintain the minimum requirements regarding the presentation of line items on the face of the Statement of Financial Performance, with additional guidance. The minimum line items presentation requirements are aligned with IFRS 18 requirements, with additional public sector guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Presentation of Expenses by Nature or Function

4.43 IPSAS 1 requires entities to classify and present expenses on the Statement of Financial Performance either by the nature of the expenses (useful for predicting future cash flows) or by their function within the entity (useful to understand programs and purposes to fulfill service delivery objectives), whichever provides information that is faithfully representative and more relevant.

4.44 The IPSASB acknowledged that there are different but equally valuable benefits to presenting by nature or function, but current practice indicates that additional guidance may be necessary to better help entities determine which method would provide more useful and relevant information for the users of its financial statements, to support their understanding and analysis for accountability and decision-making purposes.

4.45 New ~~IPSAS~~ presentation requirements in the IPSAS Standard replacing IPSAS 1 should lead public sector entities to effectively provide their financial statement users with useful and relevant information, and reflect the realities and needs of the international public sector. To achieve this, the IPSASB proposes to:

(a) Continue providing the choice between presenting by nature or by function. Retaining this existing IPSAS 1 choice acknowledges that both methods have merits and provide an indication of costs that vary with the entity's outputs and can support financial statement users in understanding the costs of service delivery, to generate outputs and outcomes at the core of its service delivery objectives. Providing this choice allows public sector entities to make their own determination about which method provides a more useful structured summary of its revenue and expenses that provide relevant and faithfully representative information to their financial statement users. This choice also serves as a baseline for national standard setters to adapt for jurisdiction-specific needs;

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(b) Reframe these existing IPSAS 1 requirements in the context of new categorization requirements for the Statement of Financial Performance proposed above;

(c) Add additional guidance to help public sector entities:

(i) Better understand the merits of presenting expenses by nature vs. by function, and determine which of the two methods would provide more relevant and faithfully representative information for its financial statement users to understand the entity's allocation of resources to activities and programs;

(ii) Consider various factors in making that determination, such as the nature of the entity's services delivery objectives, roles, and activities, the entity's users, and common practices. For example, a national government or entity accountable for providing multiple services or delivering on multiple programs may conclude that presentation by function would be more appropriate, and may present functions similar to GFSM 2014 Classification of Functions of Government (COFOG) to provide more useful and relevant information for its financial statement users. In comparison, a ministry responsible for effectively using its resources to achieve one predominant objective or outcome may conclude that presentation by nature would be more appropriate to provide more useful and relevant information for its users; and

(iii) Apply judgment and identify when presentation by function may not be appropriate (for example, when it is not able to appropriately allocate expenses to functions without arbitrary allocations resulting in information that is not faithfully representative of resources used for that function).

4.46 These presentation requirements would broadly align with IFRS 18. The IPSASB noted that IFRS 18 now permits mixed presentation (some expense line items by nature, and others by function), in response to direct requests from private sector constituents. IPSASB members had different views on whether to introduce the option to use mixed presentation in IPSAS Standards, in alignment with IFRS 18:

(a) Mixed presentation provides reporting entities with an appropriate level of flexibility (i.e., an entity should be allowed to present expenses in this way if it contributes to providing the most useful structured summary of those expenses). Furthermore, no public sector issue has been identified that would warrant departure from IFRS 18 in accordance to the IPSASB's *Process for Reviewing and Adapting IASB Documents*; however

(b) IPSAS 1 did not allow for mixed presentation, and the IPSASB has not received any indications that mixed presentation is needed in the public sector. Prohibiting mixed presentation would improve comparability of financial information across entities and jurisdictions, and more effectively respond to initial feedback from public sector constituents to reduce diversity of presentation in practice.

4.47 The IPSASB also considered whether to introduce expense presentation requirements aligned with GFSM 2014, noting that such an approach would require the introduction of a detailed and prescriptive set of requirements to classify and aggregate expenses according to economic classification requirements for fiscal analysis. While this would result in a standardized presentation of expenses, the IPSASB is committed to taking a principled approach rather than setting prescriptive classification and presentation requirements, and so the IPSASB does not propose to pursue a GFSM 2014 aligned approach.

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Specific Matter for Comment 1—Chapter 4

The IPSASB proposes to maintain the requirements to present ~~its~~ expenses by the nature of the expenses or by their function to the entity on the face of the Statement of Financial Performance, in alignment with IFRS 18 requirements, with additional guidance.

In your view, should the new IPSAS Standard replacing IPSAS 1 permit mixed presentation, where some expense line items are presented by nature, while others are presented by function? Would mixed presentation result in a useful structured summary of those expenses for users of financial statements in your jurisdiction?

Please provide the reasoning behind your view.

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Chapter 5: Statement of Changes in Net Assets/Equity

Introduction

5.1 This Chapter explores the potential presentation requirements regarding financial information on the Statement of Changes in Net Assets/Equity.

5.2 The Statement of Changes in Net Assets/Equity aims to provide a structured summary of changes to a reporting entity's net assets/equity, together with comparative information – a summarized version of this Statement is illustrated in **Figure ~~X~~1**[33]. Changes in net assets/equity reflect the increase or decrease in its net assets during the period, and includes several components:

(a) All financial performance for the period, comprised of:

(i) Revenue and expense items recognized in surplus or deficit, presented as a total (from the Statement of Financial Performance – explored in Chapter 4);

(ii) Revenue and expense items recognized outside of surplus or deficit, presented individually and in total; and

(b) Contributions by, and distributions to, owners in their capacity as owners (if any); and

(c) The effects of changes in accounting policies and corrections of errors (if any).

Figure ~~X~~1

Statement of Changes in Net Assets/Equity For the year ended December 31	**Attributable to owners of the controlling interest** Contributed capital / Reserve X / Total	**Non-controlling interest**	**Total net assets / equity**
Balance at December 31, 20X~~2~~4			
Changes in net assets/equity: …			
Net revenue recognized directly in net assets/equity			
Surplus/(deficit) for the period			
Total revenue and expenses for the period			
Balance at December 31, 20X~~3~~5			
Changes in net assets/equity: …			
Net revenue recognized directly in net assets/equity			
Surplus/(deficit) for the period			
Total revenue and expenses for the period			
Balance at December 31, 20X~~4~~6			

[33] IPSAS 1 paragraph ~~.~~125 allows entities to present its Statement of Net Assets/Equity either in a columnar format (as presented in Figure ~~X~~1 and in the Implementation Guidance), or in a simplified manner with other information in the notes.

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5.3 To advance the objectives of this project (as noted in Chapter 1), the IPSASB considered the following core aspects of presenting information on the Statement of Changes in Net Assets/Equity:

(a) Presentation of Revenue and Expenses Recognized Outside of Surplus or Deficit;

(b) Other Presentation Requirements for Statement of Changes in Net Assets/Equity; and

(c) Applicability of IFRIC 17, *Distribution of Non-cash Assets to Owners*.

Presentation of Revenue and Expenses Recognized Outside of Surplus or Deficit

5.4 Revenue and expenses represent the increases and decreases in a reporting entity's net financial position, other than ownership contributions and distributions. The IPSAS Standards requires entities to present revenue and expense items in one of two financial statements.

5.5 IPSAS 1 requires all items of revenue and expenses recognized in a period to be included in surplus or deficit, unless another IPSAS Standard requires otherwise. Normally, all revenue and expense items are expected to be included in surplus or deficit, on the Statement of Financial Performance. However, certain IPSAS Standards require some revenue and expense items to be recognized outside of surplus or deficit, directly in net assets/equity, on the Statement of Changes in Net Assets/Equity.[34]

Approaches to Presenting Revenue and Expense Items Recognized Outside of Surplus or Deficit

5.6 Presentation requirements related to revenue and expense items recognized outside of surplus or deficit should provide sufficient transparency to help users of financial statements understand and analyze this information for accountability and decision-making purposes. Displayed financial information is transparent if it is clear, easily understood, visible, and accessible, thereby helping users understand the nature and extent of changes to the reporting entity's net position in achieving its service delivery objectives and make informed decisions.

5.7 The IPSASB had mixed views on whether these longstanding IPSAS 1 requirements are achieving the appropriate level of transparency regarding these movements in the entity's net financial position, for a user's accountability and decision-making purposes, and this informs views on future presentation requirements.

5.8 In line with its Project Drivers (as noted in Chapter 1, Table 2), the IPSASB considered whether to:

(a) Retain and enhancing existing IPSAS 1 requirements, where appropriate;

(b) Align with IFRS 18 requirements with any necessary public sector guidance or adaptations; or

(c) Align with GFSM 2014 requirements to reduce unnecessary differences as appropriate.

[A] Retaining and Enhancing IPSAS 1 Requirements

5.9 By retaining and enhancing the existing IPSAS 1 requirements, reporting entities would be required to:

(a) Continue presenting revenue and expense items recognized outside of surplus or deficit on the Statement of Changes in Net Assets/Equity (see illustration in **Figure X1**, above), while appropriately applying the

[34] Individual IPSAS Standards provide guidance on the recognition and measurement of revenue and expense items, including whether these items are to be recognized in surplus or deficit, or outside of surplus or deficit (directly into net assets/equity). The IPSASB's decisions regarding which revenue or expense items are recognized outside of surplus or deficit are made on an individual Standard-by-Standard basis, aligned with the IASB's allocation since 2000, and generally arise from specific remeasurements of certain assets and liabilities to current value. The scope of this project includes reviewing presentation requirements for these items outside surplus or deficit. The scope of this project does not include reassessing the allocation and composition (i.e., the IPSASB is not reevaluating its decisions in individual IPSAS Standards regarding the recognition, measurement, reclassification, and allocation of revenue and expense items to be in surplus or deficit vs. outside of surplus or deficit).

existing general presentation principles (specifically considering the materiality, and level of aggregation and disaggregation of financial information presented)[35]; and

(b) Provide qualitative information in the accompanying note disclosures about each material item of revenue and expense recognized outside of surplus or deficit, to enhance the existing note disclosure requirements in IPSAS 1.

5.10 Most IPSASB members supported retaining existing IPSAS 1 requirements. In their view, these requirements already achieve the appropriate level of transparency regarding these revenue and expense items, which is supported by preliminary academic research conducted to date:

(a) All reporting entities applying IPSAS Standards are required to provide a Statement of Changes in Net Assets/Equity. The application and results of IPSAS 1 presentation requirements are familiar to reporting entities and users of their financial statements. Financial statement users are able to easily access this Statement and are aware that it presents revenue and expense items recognized outside of surplus and deficit, which comprise the majority (if not the entirety) of financial information on this Statement.

(b) Using this Statement, financial statement users are currently able to obtain a good understanding of the nature and extent of these changes in the entity's net financial position and seek additional information in accompanying notes or other reports as needed. Together with the Statement of Financial Performance, users can fully understand changes in the entity's net financial position to support their accountability and decision-making needs.

[B] Aligning with IFRS 18 Requirements

5.11 IFRS 18 requires entities to present all income and expense items (i.e., regardless of whether they are recognized in profit or loss, or outside of profit or loss) separately from any changes in net assets that arise from transactions with owners, to help financial statement users assess the entity's performance in the period. The requirement, first introduced in IAS 1 (2007), permits entities to choose to present income and expense items on either one or two financial performance statements.

5.12 If the IPSASB adopts this IFRS 18 aligned approach, reporting entities would be required to relocate revenue and expense items recognized outside of surplus or deficit, and present these items on either of the following (as illustrated in **Figure X2**):

(a) The Statement of Financial Performance, in a separate section below surplus or deficit; or

(b) A new, second financial performance statement.

5.13 The IPSASB would also need to introduce a new term to refer to revenue and expense items recognized outside of surplus or deficit, to succinctly capture the nature and substance of these items. The IPSASB noted that IFRS 18's use of "Other Comprehensive Income" (OCI) for income and expenses recognized outside of profit or loss (consistent with revenue and expense items recognized outside of surplus or deficit under IPSAS Standards) would not be appropriate to use in the public sector because it may miscommunicate the nature and substance of those items. For illustrative purposes, **Figure X2** uses "other financial performance' to refer to revenue and expense items recognized outside of surplus or deficit, because these items are a component of an entity's financial performance in the period that represent a portion of changes to an entity's overall financial position.

[35] This ensures that the entity's presentation of revenue and expense items recognized outside of surplus or deficit does not obscure material information, to enable users to understand the key messages, at an understandable level, for accountability and decision-making.

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Figure ~~X~~2

(a) One Financial Performance Statement (paragraph 5.12(a))

Statement of Financial Performance
For the year ended December 31, 20X4~~5~~6
Revenue
Expenses
Surplus / (Deficit)
Other revenue
Other expenses
Total other financial performance *
Total financial performance *

(b) Two Financial Performance Statements (paragraph 5.12(b))

Statement of Financial Performance
For the year ended December 31, 20X4~~5~~6
Revenue
Expenses
Surplus / (Deficit)

Statement of Other Financial performance *
Surplus / (Deficit)
Other revenue
Other expenses
Total other financial performance *
Total financial performance *

5.14 Some IPSASB members are of the view that presentation requirements should align with IFRS 18 requirements. In their view, IPSAS 1 requirements do not achieve the appropriate level of transparency regarding these revenue and expense items:

(a) Revenue and expense items recognized outside surplus or deficit are part of an entity's overall financial performance for the period. Presenting these in the Statement of Changes in Net Assets/Equity reduces the visibility and prominence of these items, compared to revenue and expense items recognized in surplus or deficit on the Statement of Financial Performance.

(b) Presenting some financial performance information on the Statement of Financial Performance and other financial performance information on the Statement of Changes in Net Assets/Equity, is not intuitive and confusing for financial statement users. Users may not be effectively obtaining a full picture of the changes in the entity's net financial position in the period, which does not support their accountability and decision-making needs.

[C] Aligning with GFSM 2014 Requirements

5.15 As presented in Chapter 4 and Appendix A, there are important differences between the two statements produced under the two frameworks:

(a) The Statement of Other Economic Flows (which reports 'other economic flows' for the period that are changes in net worth that are not from transactions) is similar, but not equivalent to, the IPSAS Statement of Changes in Net Assets/Equity. These statements present different information, serve somewhat different objectives, and are not directly comparable; and

(b) What constitutes revenue and expenses (vs. other economic flows), and how they're identified and calculated, partially differ. Generally, all revenue and expense items recognized outside of surplus or deficit under IPSAS Standards are likely classified as 'other economic flows' under GFSM 2014. However, the scope of items classified as 'other economic flows' under GFSM 2014 is broader than those required or permitted to be recognized outside of surplus or deficit directly in net assets/equity under IPSAS Standards.

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5.16 To align with GFSM 2014's presentation of other economic flows, public sector entities would be required to present revenue and expense items using a new, specific set of classification and aggregation requirements based on the economic nature of each item, with different underlying recognition and measurement requirements. This would require the introduction of the GFSM 2014 concept of transactions (that are never presented in the Statement of Other Economic Flows), as well as the GFSM 2014 concepts of changes in net worth due to holding gains and losses and changes in net worth due to other changes in the volume of assets and liabilities (that are always presented in the Statement of Other Economic Flows).

5.17 Similar to its discussions presented in Chapter 4, the IPSASB acknowledged that this approach could reduce differences between IPSAS Standards and GFSM 2014 by better aligning the presentation of these items. However, it would imply changing the classification, recognition, measurement, and presentation requirements across the whole suite of IPSAS Standards, which is not in the scope of this project.

5.18 Nevertheless, the IPSASB highlights that IPSAS Standards-based accounting data can always be used as source data for statistical compilation of the GFSM 2014 Statement of Other Economic Flows in specific circumstances (see more details in Appendix A).

5.19 The IPSASB summarized the benefits and drawbacks of the potential approaches, in **Table 1**.

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Table 1 – Benefits and Drawbacks to the Potential Categorization Approaches

Potential Approach	Overall Analysis	Benefits	Drawbacks
Retaining IPSAS 1 (paragraphs 5.9-5.10)	Remains appropriate for the public sector, while enhancing the current note disclosure requirements	✓ Is consistent with current practice and presentation of these revenue and expense items recognized outside of surplus or deficit on the Statement of Changes in Net Assets/Equity is familiar for current users ✓ Improves communication without impeding existing transparency, and provides a comprehensive narrative about revenue and expense items recognized outside of surplus or deficit in the period ✓ Allows for more balanced set of financial statements, in comparison to the IFRS 18 approach, that is more usable and understandable for users	○ Does not achieve alignment with IFRS, though the underlying accounting principles for these transactions are the same, which reduces comparability across sectors and may cause unnecessary confusion ○ May not clearly convey that these items are part of a reporting entity's financial performance in the period
Aligning with IFRS 18 Requirements (paragraphs 5.11-5.14)	Relabels and relocates revenue and expense items recognized outside surplus or deficit onto a different Statement	✓ May provide a more comprehensive and visible overview of financial performance, as all revenues and expenses (whether in or outside of surplus or deficit) are located on statement(s) that have the sole objective of presenting financial performance for the period to achieve service delivery objectives ✓ Reflects that underlying accounting principles are primarily IFRS-aligned, which may help entities better access capital markets ✓ Allows entities to balance potential advantages and challenges of one statement vs. two statements, to suit entity- and jurisdictional-specific user needs	○ May cause confusion, without improving transparency or user understanding, as current ~~IPSAS~~ presentation based on IPSAS 1 is well-understood and familiar to users of IPSAS-compliant financial statements ○ May lead to misunderstanding regarding the nature and substance of these items, and users may misinterpret these items are available resources ○ Potentially reduces the usefulness of the Statement of Changes in Net Assets/Equity in the public sector
Aligning with GFSM 2014 Categories (paragraphs 5.15-5.18)	Effective alignment can only be achieved through substantial and comprehensive review of IPSAS Standard accounting principles, which is outside the scope of this project	✓ Standardizes presentation and increases comparability across public sector entities	○ Does not achieve alignment in substance with GFSM 2014, without also considering substantial changes to the underlying accounting principles ○ Prescribes a specific and rigid classification structure that may not be applicable for all public sector entities

5.20 Based on this assessment, the IPSASB proposes to retain the existing IPSAS 1 requirements regarding the presentation of revenue and expense items recognized outside of surplus or deficit, in the Statement of Changes in Net Assets/Equity. In making this decision, the IPSASB noted:

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(a) Retaining IPSAS 1 requirements would entail an ongoing difference from IFRS Accounting Standards. A key reason to warrant departure is the differences between users of financial statements in the public sector compared to the private sector. As articulated in Chapter 4 and Appendix B, users of public sector financial statements may vary widely, given the broad range of public sector entities in their nature, service delivery objectives, and other factors. Users typically are, or serve as proxies for, the service recipients and service providers of the public sector entity. ~~M~~IPSASB members acknowledged that public sector users are familiar with the current IPSAS 1 presentation without issues, and there are drawbacks aforementioned regarding IFRS 18 alignment, particularly the potential for confusion and misinterpretation by users, may pose accountability and governance risks. Thus, the IPSASB are of the view that this warrants departure from IFRS alignment, in compliance with the IPSASB's *Process for Reviewing and Adapting IASB Documents*.

(b) Existing disclosure requirements could be enhanced, to better communicate key messages, providing more context and details, to support financial statement users in understanding, analyzing, and comparing this information for accountability and decision-making purposes.

Reclassification Adjustments

5.21 IPSAS Standards may require reporting entities to reclassify certain amounts previously recognized in net assets/equity into surplus or deficit, as reclassification adjustments (for example, when the amounts become realized). These Standards amended IPSAS 1 to include guidance on reclassification adjustments (specifically paragraphs 125A-125C of IPSAS 1) to require entities to make necessary adjustments to avoid double-counting the amount.

5.22 The IPSASB proposes to retain guidance from IPSAS 1 related to reclassification adjustments, as it remains appropriate to require entities to avoid double-counting amounts subject to reclassification, and were developed based on its work on other IPSAS Standards.

Preliminary View 11—Chapter 5

The IPSASB's preliminary view is to maintain (1) requirements to present revenue and expense items recognized outside surplus or deficit directly in net assets/equity, on the Statement of Changes in Net Assets/Equity, and (2) requirements related to reclassification adjustments. ~~The IPSASB also proposes to enhance the disclosure requirements to help users better understand the nature and composition of material revenue and expense items recognized outside of surplus or deficit.~~

Do you agree with the IPSASB's Preliminary View, and are there additional enhancements to ~~this~~ these IPSAS 1 requirements the IPSASB should consider (for example, whether to enhance disclose requirements to help users better understand the nature and composition of material revenue and expense items recognized outside of surplus or deficit)?

If you do not agree, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Other Presentation Requirements for Statement of Changes in Net Assets/Equity

5.23 The Statement of Changes in Net Assets/Equity presents information regarding the changes in an entity's net assets/equity between two reporting dates, and links to information presented on the Statement of Financial Performance and Statement of Financial Position.

5.24 IPSAS 1 requires specific information to be presented on the face of the Statement of Changes in Net Assets/Equity and/or in the accompanying notes to ensure that public sector entities provide a useful and transparent overview of changes in an entity's net assets/equity during the reporting period to the users of its financial statements.

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5.25 The IPSASB concluded that the IPSAS 1 requirements have been effective and remain appropriate for the public sector, but acknowledged that these requirements could be enhanced to better support the information needs of financial statement users. Based on its assessment, the IPSASB noted that:

(a) IPSAS 1 requires entities to present a reconciliation of each component of net assets/equity at the beginning and end of the period, on either the face of the Statement of Changes in Net Assets/Equity or in the notes.

(b) IFRS 18 requires entities to present this reconciliation on the face of the Statement of Changes in Equity.

5.26 This reconciliation provides a snapshot overview, allowing users of financial statements to understand how the balances change over the reporting period and what is driving those changes. The IPSASB noted requiring the reconciliation be presented on the face of the Statement, rather than offering the choice of the face or the notes in current IPSAS 1, would achieve greater comparability across public sector financial statements and transparency on the face of the Statement of Changes in Net Assets/Equity. By requiring all entities to present the reconciliation on the face of the Statement, public sector entities can provide a comprehensive and useful overview on the face of the Statement to support users of the financial statements information needs.

Preliminary View 12—Chapter 5

The IPSASB's preliminary view is to maintain the presentation requirements regarding the Statement of Changes in Net Assets/Equity, and revise the reconciliation requirement to require the reconciliation be displayed on the face of the Statement.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Applicability of IFRIC 17~~,~~ Distribution of Non-cash Assets to Owners

5.27 During the development of its Project Brief, the IPSASB decided to review IFRIC 17~~,~~ *Distribution of Non-cash Assets to Owners* to determine whether the guidance is relevant and applicable in the public sector.

5.28 IFRIC 17, issued by the IFRS Interpretations Committee (formerly "International Financial Reporting Interpretations Committee" (IFRIC), provides guidance on the recognition, measurement, presentation and disclosure of non-reciprocal (i.e., non-exchange) distributions of assets by an entity to its owners acting in their capacity as owners. The IPSASB noted that IFRIC 17 applies to a specific scope of transactions: distributions of non-cash assets and distributions that give owners a choice of receiving either non-cash assets or a cash alternative. IFRIC 17 only applies to non-reciprocal distributions of assets by an entity to its owners in which all owners of the same class of equity instruments are treated equally, and does not apply to distributions where the assets are ultimately controlled by the same party or parties before and after distribution.

5.29 The IPSASB acknowledged that while non-cash assets may be transferred between public sector entities, these transactions typically would not be in the scope of IFRIC 17 as they are not typically transactions with owners in their capacity as owners in which all owners are treated equally, and/or the non-cash asset is likely still controlled by the same party or parties before and after its distribution. Thus, the IPSASB concluded that transactions that would be in the scope of IFRIC 17 are not prevalent in the public sector, and that guidance based on IFRIC 17 should not be incorporated into IPSAS Standards.

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Preliminary View 13—Chapter 5

The IPSASB's preliminary view is that guidance based on IFRIC 17 *Distribution of Non-cash Assets to Owners* should not be incorporated into the IPSAS Standards, as the relevant transactions are not prevalent in the international public sector.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

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Chapter 6: Disclosure of Information in the Notes

Overview

6.1 Note disclosures help achieve the overall objective of financial reporting, by providing more details to help users of financial statements better understand the information presented in the financial statements, thereby supporting their accountability and decision-making needs. To contribute to the achievement of the objective of financial reporting, information disclosed in the notes presents the entity's financial statements in the context of the entity and its operating environment and has a clear ~~and demonstrable~~ relationship with information displayed on the face of the related financial statements.[36]

6.2 This Chapter outlines the IPSASB's discussions and conclusions regarding the requirements for the disclosure of information in the notes to the financial statements.

6.3 To advance the objectives of this project (as noted in Chapter 1), the IPSASB considered the requirements related to:

(a) Structure of the Notes;

(b) Disclosure of Accounting Policy Information;

(c) Disclosure of Sources of Estimation Uncertainty;

(d) Disclosure of General Information and Net Assets/Equity Information; and

(e) Applicability of IFRS 18's Management-Defined Performance Measures.

Structure of the Notes

6.4 The structure of the notes that accompany information displayed in the financial statements can impact how effectively information is communicated to, and thus understood by, the users of financial statements.

6.5 IPSAS 1, aligned with IAS 1 (2003), provides guidance regarding the structure of the notes. IPSAS 1 requires entities to present in the notes, in a systematic manner, specific information and additional information deemed relevant to understanding information on the face of the financial statements.

6.6 In considering these requirements, the IPSASB:

(a) Noted these requirements have been effective in helping public sector entities determine the appropriate structure of the notes they present, to support the information needs of financial statement users; and

(b) Acknowledged that the IASB amended equivalent private sector guidance in 2014 as part of its *Disclosure Initiative* project to clarify existing disclosure requirements regarding the structure of the notes, by framing 'systematic manner' in the context of qualitative characteristics and refining guidance to avoid misinterpretations. ~~and t~~The guidance was carried forward into IFRS 18 without substantial changes.

6.7 Based on its assessment, the IPSASB concluded that the 2014 amendments to IAS 1 should be incorporated into IPSAS Standards, as they would help public sector entities better understand and apply the requirements regarding the structure of the notes. Incorporating the amendments would clarify existing requirements, refine guidance to avoid misinterpretation, and help entities use judgment to apply requirements by framing the

[36] Chapter 8 of the IPSASB Conceptual Framework.

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determination of 'systematic manner' in the context of qualitative characteristics (understandability and comparability).

Disclosure of Accounting Policy Information

6.8 ~~Information about~~ Disclosure of an entity's accounting policies can support ~~users of financial statements in the~~ understanding of information in the financial statements by the users of financial statements ~~and contribute to better decision-making and accountability practices~~.

6.9 IPSAS 1 currently requires entities to disclose significant accounting policies, and prompts entities to consider when additional disclosures would assist users of financial statements in understanding specific transactions, events, and conditions, accounting policies selected, and other entity-specific considerations. IPSAS 1 also directs entities to adhere to disclosure requirements in other IPSAS Standards.

6.10 In considering these requirements, the IPSASB:

(a) Noted these requirements have been effective in helping public sector entities disclose ~~its~~ their significant accounting policies, to support the information needs of financial statement users; and

(b) Acknowledged that the IASB amended equivalent private sector guidance in 2021 as part of its *Disclosure Initiative* project to clarify existing disclosure requirements, by revising guidance to focus on material accounting policy information (rather than significant) and to emphasize the application of judgment in making their ~~to help stakeholders improve~~ accounting policy disclosures., ~~and t~~The guidance was carried forward without substantial changes.[37]

6.11 There is broad, ongoing interest in managing potential disclosure overload, to ensure that information in financial statements is useful, relevant, and communicated effectively to users of the financial statements. This puts continued emphasis on considering information in the context of materiality and disclosing information that can be reasonably expected to influence the decisions of the primary users of financial statements.

6.12 Thus, the IPSASB proposes to incorporate the 2021 amendments to IAS 1 into IPSAS Standards, thereby revising existing IPSAS 1 guidance to focus on material accounting policy information. This would:

(a) Reframe the existing disclosure requirements in the context of materiality and application of judgment, to more effectively prompt entities to consider what information is material to the primary users of its financial statements and their decision-making needs, without substantially changing the existing requirements on the disclosure of accounting policy information; and

(b) Be consistent with the IPSASB Conceptual Framework, and the IPSASB's recent and upcoming work on its current narrow-scope *Making Materiality Judgments* project.

Disclosure of Sources of Estimation Uncertainty

6.13 When applying IPSAS Standards, entities make assumptions about the future and estimate the effects of uncertain future events to measure some assets and liabilities. Information about the sources of estimation uncertainty helps users of financial statements understand the entity's judgments, to better understand the information in the financial statements.

6.14 IPSAS 1 currently requires entities to disclose information about key assumptions made about the future, and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a

[37] In developing IFRS 18, the IASB decided to move the guidance for the disclosure of accounting policy information into IAS 8 *Basis of Preparation of Financial Statements*, instead of IFRS 18. To support constituents in considering the IPSASB's views in this Consultation Paper, equivalent IPSAS Standard guidance for these presentation requirements is illustrated in the illustrative ED.

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material adjustment to carrying amounts of assets and liabilities within the next financial year. It also provides guidance and examples to help entities apply these requirements and directs entities to adhere to disclosure requirements in other IPSAS Standards regarding key assumptions and sources of estimation uncertainty.

6.15 The IPSASB noted that the requirements have been effective in helping entities identify and disclose key sources of estimation uncertainty to support information needs of financial statement users, and remain relevant and appropriate for public sector financial reporting. In addition, these requirements remain consistent with those in IFRS Accounting Standards[38], with important public sector differences (for example, the IPSAS Standards include current operational value as a potential current value measurement basis). Therefore, the IPSASB proposes to retain them in the ~~new~~ IPSAS Standard~~s that will replace IPSAS 1~~.

Disclosure of General Information and Net Assets/Equity Information

6.16 Since public sector entities differ in their nature, service delivery objectives, and jurisdiction-specific factors, the users of financial statements benefit from general information about the entity itself (such as its legal form, nature of its operations, relevant legislation, and other details) and relevant information about its net assets/equity.

6.17 IPSAS 1 provides specific requirements for entities to disclose the general information if not disclosed elsewhere in information published with the financial statements. The IPSASB noted that these requirements are applicable for all public sector entities, and results in useful information for users of financial statements to understand the jurisdiction and operational environment of the entity.

6.18 IPSAS 1 also requires entities to disclose any information related to components of net assets/equity (if applicable). The IPSASB acknowledged that these disclosure requirements are transaction specific and may not be applicable for some public sector entities. For example, only entities that have capital are required to disclose information to help users of financial statements evaluate the entity's objectives, policies, and processes for managing that capital and any different capital requirements. In addition, entities with puttable financial instruments classified as net assets/equity, or ~~who~~ that have share capital and dividends or similar distributions, would be required to disclose specific information in accordance with IPSAS 1 requirements. The IPSASB noted that these requirements remain relevant and appropriate, and ensures that entities provide useful information in their notes to help users of financial statements understand any such transactions.

6.19 Based on its discussions, the IPSASB proposes that the guidance be retained in the ~~new~~ IPSAS Standard~~s that replaces IPSAS 1~~. This guidance also remains aligned with equivalent IFRS Accounting Standards guidance.[39]

Preliminary View 14—Chapter 6

The IPSASB's preliminary view is to retain existing IPSAS 1 requirements for the disclosure of information in the notes to the financial statements, and incorporate the IASB's amendments to IAS 1 (as presented in paragraphs 6.7 and 6.12) which would align with equivalent IFRS Accounting Standards guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

[38] In developing IFRS 18, the IASB decided to move the guidance for the disclosure of sources of estimation uncertainty into IAS 8, instead of IFRS 18. To support constituents in considering the IPSASB's views in this Consultation Paper, equivalent IPSAS Standard guidance for these presentation requirements is illustrated in the illustrative ED.

[39] In developing IFRS 18, the IASB decided to move the guidance for the disclosure of puttable financial instruments classified as equity into IFRS 7 *Financial Instruments: Disclosures*, instead of IFRS 18. To support constituents in considering the IPSASB's views in this Consultation Paper, equivalent IPSAS Standard guidance for these presentation requirements is illustrated in the illustrative ED.

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Applicability of IFRS 18's Management-Defined Performance Measures

6.20 The IASB formally introduced the concept of~~, and disclosure requirements for~~ 'management-defined performance measures' (MPMs) ~~upon issuance of~~in IFRS 18, published in 2024. In line with its Project Drivers (Chapter 1, Table 2), the IPSASB considered whether, and how, IFRS 18 MPMs may be relevant or applicable for the public sector.

~~6.21~~ ~~The IASB's decision to introduce this concept, defining MPMs in a narrow manner and requiring specific disclosures for MPMs, was a direct response to constituent feedback in the private sector. :~~

6.21 Users of private sector financial statements found that alternative performance measures (i.e., non-GAAP measures) defined by management and communicated *outside* the financial statements provided useful ~~insights~~information. However, these users raised concerns about the quality of information provided about such measures.

6.22 To address constituent feedback:

(a) ~~The~~ IASB defined ~~MPMs~~ and introduced disclosure requirements ~~about~~ for MPMs to improve the transparency of such measures (e.g., their purpose/use, calculation, and reconciliation back to the most directly comparable subtotal required by IFRS) and the quality of such information (as the disclosure requirements likely bring such measures within the scope of audit); and~~.~~

(b) The IASB intentionally defined MPM in a narrow manner to directly address constituent feedback in the private sector. Specifically, management-defined performance measures are only MPMs as defined in IFRS~~.~~ 18 (and subject to the disclosure requirements) if they are a subtotal of income *and* expenses that:

(i) An entity uses in public communications *outside* financial statements, to communicate to users of financial statements *management's view* of an aspect of the entity's financial performance as a whole; and

(ii) Are *not* subtotals specifically required to be presented or disclosed by IFRS~~.~~ 18 or other IFRS Accounting Standards.

Incorporating IFRS 18 MPMs in the Public Sector

6.23 In assessing whether to incorporate ~~similar~~ the IFRS 18 MPM guidance (i.e., the definition and disclosure requirements) into IPSAS~~B~~ Standards, the IPSASB noted that~~:~~ ~~P~~ public sector entities may also report alternative performance measures in public communications outside the financial statements to communicate an aspect of the entity's performance as a whole, to support accountability and decision-making needs.

~~6.23~~6.24 However, these public sector alternative performance measures typically would not be MPMs as defined by IFRS 18 because they are not a subtotal of revenue *and* expenses. Examples of such ~~C~~common ~~public sector~~ alternative performance measures across ~~jurisdictions~~ the international public sector include:

(a) Debt-related measures, such as net debt, debt issuances, total borrowings, and net lending figures;

(b) Budgetary and statistical information, such as GDP (by industry and in total), debt brakes, budget deficits, budget variances, expenditure values and ratios (in total or by type), and revenue values and ratios (in total or by source), and other fiscal monitoring data;

(c) Non-financial measures, such as service delivery targets, unit cost of specific services, employment and workforce rates and ratios, tax collection percentages, migration figures, and quality of life metrics; and

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(d) Financial measures that are subtotals of individual financial statement elements (e.g., subtotals of only revenue items, only expense items, or based on assets or liabilities), but typically not subtotals of revenue *and* expenses.

6.25 ~~The public sector performance measures noted above would not be MPMs as defined by IFRS 18 because they are not a subtotal of revenue *and* expenses.~~ Based on its research and deliberations to date, the IPSASB noted that ~~Public sector~~ alternative performance measures that could meet the IFRS 18 MPM definition are not prevalent in the public sector. Specifically, the IPSASB:

(a) Acknowledged that public sector entities often use a *total* of revenue and expenses (its surplus and deficit) as a key performance measure, to assess how the entity balances its expenses and revenues alongside achieving service delivery objectives and manage its fiscal stability over time; and

(b) Observed that there are limited examples of public sector entities using ~~are rarely~~ a *subtotal* of revenue and expenses, presented outside the financial statements, to provide additional context for its performance. The IPSASB noted that subtotals of revenue and expenses appear less common in the public sector than the private sector because the primary objective of public sector entities is to deliver services that benefit the public ~~rather than~~, whereas the primary objective of private sector entities is to maximize profits and generate ~~profits~~stakeholder value.

6.26 Therefore, the IPSASB proposes not to incorporate the IFRS 18 definition of, and disclosure requirements for, MPMs into the IPSAS Standards. The different objectives and funding models of public sector entities warrants departure from IFRS alignment, ~~in compliance~~ consistent with the IPSASB's application of its *Process for Reviewing and Adapting IASB Documents*.

Preliminary View 15—Chapter 6

The IPSASB's preliminary view is to not incorporate ~~or adapt guidance based on~~ the IFRS 18 definition and disclosure requirements for ~~regarding~~ management-defined performance measures (MPMs) into the IPSAS Standards.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons~~,~~ and clearly explain what you consider should be changed.

Amending IFRS 18 MPMs for Application in the Public Sector

6.27 Instead of incorporating the concept of MPM as defined in IFRS 18, ~~T~~the IPSASB also considered whether ~~similar guidance, by adapting~~ to amend the IFRS 18~~'s~~ MPM concept and definition for application in the public sector, and to introduce similar disclosure requirements into the IPSAS Standards. To make this decision, the IPSASB considered whether there is a similar need for greater transparency over the use and measurement of alternative performance measures that are communicated outside the financial statements in the public sector, and if so, whether amending the IFRS 18 guidance for inclusion in IPSAS Standards would provide similar benefits to financial statement users in the public sector regarding such measures.

6.28 The IPSASB is aware that public sector entities provide a wide variety of alternative performance measures to communicate information about its performance. Unlike private sector ~~constituents~~feedback to the IASB, public sector constituents have not voiced similar concerns to the IPSASB regarding the transparency or quality of information provided by alternative performance measures currently communicated outside financial statements only. It is the IPSASB's view that this is likely because alternative performance measures in the public sector are:

(a) ~~Public sector performance measures presented in public communications are:~~Typically ~~C~~commonly used and well understood by public sector constituents;

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(b) ~~d~~Directly related to the entity's service delivery objective(s) and the jurisdiction(s) in which it operates. These measures~~, which~~ are entity- ~~and~~ or jurisdiction- ~~specific given the diversity of the public sector internationally~~, and are:

(i) In most circumstances, ~~a~~already subject to established industry standards and/or local requirements, laws, and regulations. Examples include alternative performance measures related to fiscal monitoring or fiscal strategy, based on each jurisdiction's own legislative requirements; or

(ii) In limited circumstances, provided voluntarily by the entity for transparency and accountability purposes. In such cases, the entities generally are transparent and consistent in their communication of such measures (i.e., their purpose and calculation) as they related to fiscal strategy or monitoring, service delivery or financial management objectives;

(c) ~~Are g~~Governed by other reporting frameworks or sets of guidance in the broader public sector reporting landscape. This is particularly true for alternative performance measures summarized in paragraph 6.24~~6.23~~, ~~such~~ as existing budgetary ~~reporting~~, statistical ~~reporting~~, service performance ~~reporting guidelines~~, and financial statement discussion and analysis (FSDA) reporting guidance already provide requirements or guidelines for calculating and presenting such measures to users of this information); and/or

(d) Typically subject to a greater degree of scrutiny by a wider range of users in the public sector. This means that entities generally calculate their alternate performance measures in a consistent manner year-over-year and are less subject to change at the discretion of management. The consistency of the calculation over time, and a high threshold for any revisions to this calculation, gives credibility to the alternative performance measure presented.

~~6.24 , which means there is no transparency gap to resolve;Given the objective of public sector entities, the measures presented outside financial statements focus on communicating their achievement of service delivery objectives. Insights about the public sector entity are not communicated through measures of profitability in the form of subtotals of *revenue and expenses* (like *income and expenses* as in the private sector), but through other measures that communicate different information or narratives. A public sector entity's financial performance cannot be fully or adequately reflected in any measure of financial results; instead, performance is assessed in the context of achieving service delivery objectives, which often require reporting both financial and non-financial information.~~

6.29 The IPSASB also acknowledged that, from a standard-setting perspective, it would likely be challenging to amend IFRS 18's definition of an MPM in a manner that works for all public sector entities, given the diversity of the public sector globally.

6.30 Thus, the IPSASB proposes not to amend the IFRS 18 MPM concept and definition for the public sector, and thus not to introduce disclosure requirements similar to those for IFRS 18 MPMs. This proposal reflects the IPSASB's research and deliberations to date, which have not identified a need for greater transparency in the public sector that would warrant developing a public sector version of IFRS 18 MPMs, together with practical challenges in establishing a definition for MPMs that would be appropriate for public sector entities globally, and the additional cost on preparers to meet any such new disclosure requirements.

~~6.25~~6.31 In forming this view, IPSASB members also highlighted that the IPSASB's Recommended Practice Guidelines (RPG) already ~~also~~ provide non-authoritative guidance and best practices to help public sector entities communicate information about the entity to its financial statement users:

(a) The long-term sustainability of the public sector entity's finances, and the impact of current policies and decisions on future inflows and outflows (RPG 1, *Reporting on the Long-term Sustainability of an Entity's Finances*);

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(b) ~~Financial statement discussion and analysis~~FSDA explain (but are not part of) financial statements, to assist users in understanding the financial statements (RPG 2, *Financial Statement Discussion and Analysis*)[40]; and

(c) The entity's service performance objectives and the extent (efficiency and effectiveness) of its achievement of those objectives (RPG 3, *Reporting Service Performance Information*).

~~6.26~~6.32 Notably, RPG- 2 guidance ~~for financial statement discussion and analysis (FSDA)~~ can provide similar benefits as IFRS -18 disclosure requirements for MPMs. Reporting ~~of~~ information in accordance with RPG 2 helps entities present FSDA that enables users to gain insights into the operations of the entity from the perspective of the entity itself. When an entity presents adjusted financial statement information in its FSDA, paragraph 24 of RPG 2 ~~paragraph 24~~ requires the entity to disclose that fact, explain the nature of and reasons for the adjustments, and to reconcile any non-IPSAS Standards measures presented in the FSDA to IPSAS Standards-based information presented in the financial statements. ~~Thus, the IPSASB proposes that it would not incorporate or adapt guidance based on IFRS 18 regarding MPMs into the IPSAS Standards. The different objectives of public sector entities warrants departure from IFRS alignment, in compliance with the IPSASB's *Process for Reviewing and Adapting IASB Documents*.~~

~~Preliminary View 15—Chapter 6~~

~~The IPSASB's preliminary view is to not incorporate or adapt guidance based on IFRS 18 regarding management-defined performance measures (MPMs) into the IPSAS Standards.~~

~~Do you agree with the IPSASB's Preliminary View?~~

~~If not, please provide your reasons, clearly explain what you consider should be changed.~~

Preliminary View 16—Chapter 6

The IPSASB's preliminary view is to not include an amended IFRS 18 MPM concept for application in the public sector (thereby not introducing an amended version of the IFRS 18 MPM definition or disclosure requirements into the IPSAS Standards).

Do you agree with the IPSASB's Preliminary View?

If not, please:

a) Provide your reasons, and provide specific examples of alternative performance measures that are defined by management and provided in public communications outside the financial statements; and

b) Clearly explain why there is a need for greater transparency of those measures that warrants new guidance in the IPSAS Standards.

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[40] ~~Notably, RPG 2 guidance for financial statement discussion and analysis (FSDA) can provide similar benefits as IFRS 18 disclosure requirements for MPMs. Reporting of information in accordance with RPG 2 helps entities present FSDA that *enables users to gain insights into the operations of the entity from the perspective of the entity itself*. When an entity presents adjusted financial statement information in its FSDA, RPG 2 paragraph 24 requires the entity to *disclose that fact, explain the nature of and reasons* for the adjustments, and to *reconcile* any non-IPSAS measures presented in the FSDA to IPSAS-based information presented in the financial statements.~~

Appendix A

Considering IFRS Accounting Standards and GFSM 2014

Introduction

A.1 Chapter 1 of this Consultation Paper (CP) listed two key project drivers, when considering and proposing new presentation requirements. This Appendix provides a summary of overarching considerations regarding the two project drivers that pertain to the IPSASB's discussions in the CP:

(a) Maintain alignment with International Financial Reporting Standards (IFRS), to the extent appropriate for the public sector. This is in line with the IPSASB's *Process for Reviewing and Adapting IASB Documents*; and

(b) Reduce unnecessary differences with Government Finance Statistics Manual 2014 (GFSM 2014), where possible. This is in line with the IPSASB's *Process for Considering GFS Reporting Guidelines During Development of IPSAS*.

Alignment with IFRS

A.2 The IPSASB acknowledges that IPSAS Standards and IFRS Accounting Standards share important conceptual and technical similarities. These similarities form a primary basis for the IPSASB's approach to developing IPSAS Standards, by adapting IFRS Accounting Standards to the public sector context where appropriate.

A.3 Overall, the two reporting frameworks can be characterized as follows:

(a) IPSAS Standards are accrual- and principle-based accounting standards developed by the IPSASB for use by public sector entities worldwide in the preparation of general purpose financial reports (GPFRs). These entities include national, regional, and local governments, ministries, public authorities, and international or inter-governmental organizations. IPSAS Standards are intended to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management, for accountability and decision-making purposes.

(b) IFRS Accounting Standards are accrual- and principle-based accounting standards developed by the International Accounting Standards Board (IASB) for use by profit-oriented entities worldwide in the preparation of general purpose financial statements (GPFSs) and other financial reporting. Profit-oriented entities include those engaged in commercial, industrial, financial, or similar activities, including corporations, mutual insurance companies, and cooperatives that distribute economic benefits to their owners or members. IFRS Accounting Standards are intended to bring transparency, accountability, and efficiency to financial reporting by providing information about a reporting entity's financial position and performance that is useful to users of financial statements in decision-making.

A.4 Based on the above, both IPSAS Standards and IFRS Accounting Standards are accrual- and principle-based accounting frameworks. Although they are used by different types of entities (public sector entities for IPSAS Standards and profit-oriented entities for IFRS Accounting Standards), both sets of standards share the objective of enhancing the quality, transparency, and accountability of financial reporting by providing financial information that is useful for decision-making.

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A.5 Given the important similarities between IPSAS Standards and IFRS Accounting Standards, the IPSASB has pursued the following approach to develop IPSAS Standards since its inception[41]:

(a) Developing new IPSAS Standards based on IFRS Accounting Standards, where their requirements are potentially applicable to the public sector, with varying degrees of adaptation for the public sector;

(b) Developing new IPSAS Standards to address public sector specific financial reporting issues not addressed in IFRS Accounting Standards. The current suite of IPSAS Standards includes four public-sector-specific IPSAS Standards; and

(c) Revising or enhancing existing IPSAS Standards based on any developments by the IASB. The IPSASB considers any new IFRS Accounting Standards, Annual Improvements to IFRS Accounting Standards, and Interpretations by the IFRS Interpretations Committee (IFRIC), to determine if similar revisions or enhancements are to be incorporated into the IPSAS Standards.

This approach has resulted in IPSAS Standards that remain aligned with IFRS Accounting Standards where appropriate, with adaptations for public sector differences.

A.6 Maintaining alignment with IFRS Accounting Standards is an overarching principle in the ongoing development of IPSAS Standards for several reasons, including:

(a) International public sector financial reporting standards should have consistent principles and accounting outcomes with the private sector when the underlying economic transactions are the same;

(b) Given that IFRS Accounting Standards are widely adopted, aligning IPSAS Standards with IFRS Accounting Standards enhances comparability of public sector financial statements internationally;

(c) Leveraging existing, well-established IFRS Accounting Standards allows the IPSASB to develop IPSAS Standards more efficiently; and

(d) Alignment reduces the cost and complexity of preparing consolidated financial statements across public entities that apply either IPSAS Standards or IFRS Accounting Standards.

Alignment with GFSM 2014

A.7 In developing IPSAS Standards, the IPSASB acknowledges that there are similarities and differences between the IPSAS Standards and GFSM 2014. Both frameworks show accrual-based financial information and provide complementary perspectives in public sector financial performance, and certain public sector entities may prepare financial reports using both IPSAS Standards (for its financial statements) and GFSM 2014 (for its statistical reports). While there are overlaps between the recognition and measurement requirements of the two frameworks, IPSAS Standards and GFSM 2014 serve slightly different objectives, leading to differences in recognition, measurement, and presentation principles.[42]

A.8 Overall, the two reporting frameworks can be characterized as follows:

(a) 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

[41] The IPSASB regularly maintains a IPSAS Standards-IFRS Accounting Standards Alignment Dashboard to track the degree of alignment between the two frameworks. This Dashboard is available in the Quick Links on the IPSASB website.

[42] The IPSASB regularly maintains a IPSAS Standards-GFSM 2014 Alignment Dashboard to track the degree of alignment between the two frameworks. This Dashboard is available in the Quick Links on the IPSASB website.

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national, regional, local governments, ministries, authorities, and international government and inter-government organizations with various service delivery objectives.

(b) GFSM 2014 provides statistical guidance and is a comprehensive analytic framework to support fiscal policy analysis and to offer a macroeconomic view of 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 and 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.

A.9 GFSM 2014 statements are structured differently from IPSAS Standards-based financial statements. As an integrated statistical framework drawn from the principles of the 2008 System of National Accounts (SNA), GFSM 2014 presents information based on flows that change stock positions to obtain key macroeconomic balances. 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, 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; 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). These are essentially all other flows, which are holding gains and losses and other changes in volume of assets and liabilities.

A.10 This distinction between transactions and other economic flows is an important difference between IPSAS Standards and GFSM 2014, which results in different classification and recognition requirements, thus leading to different presentation requirements which impairs direct comparability between information based on IPSAS Standards and GFSM 2014~~However,~~.

A.11 The IPSASB acknowledges that significant benefits can be gained from harmonizing with statistical accounting and is currently developing new guidance to strengthen the linkage between the two frameworks, and there are opportunities to reduce unnecessary differences and improve the linkages between information produced under the two frameworks. Through the *Strengthening Linkages Between IPSAS Standards and the GFSM* project, the IPSASB intends to ~~help~~ facilitate governments and public sector entities in making~~make~~ the most of accounting data based on IPSAS Standards for statistical compilation purposes, by proposing non-authoritative guidance to IPSAS 22, *Disclosure of Information about the General Government Sector* on:

(a) The data recognition and measurement requirements that are aligned with those in GFSM 2014

(b) Where GFSM 2014 has different data presentation requirements, even though recognition and measurement requirements are aligned; and

(c) Where additional data needs to be collected for GFSM 2014 purposes because of key recognition and measurement differences.

A.12 This work highlights potential limitations in achieving alignment in presentation requirements within the scope of the Presentation of Financial Statements project, where there are still various recognition and measurement differences. The IPSASB acknowledges and has considered this limitation in developing its views in this CP.

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A.13 Nevertheless, the IPSASB highlights that IPSAS Standards-based accounting data can ~~generally~~ be used as source data for statistical compilation of the GFSM 2014 Statements, provided that the entity:

(a) Selects the recognition and measurement requirements in IPSAS Standards that are aligned with GFSM 2014 requirements (see IPSASB's Exposure Draft 94, *Linkages Between IPSAS Standards and the Government Finance Statistics Manual 2014 (Amendments to IPSAS 22)* ~~*[will be published Q1 2026]*~~, open for public comment through June 22, 2026); and

(b) Codifies the transactions and other events in both frameworks using a multidimensional chart of accounts (see example in PULSAR's *A Good Practice Outline of the Multipurpose Chart of Accounts*).

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Appendix B

Key Public Sector Considerations

Introduction

B.1 The IPSASB considers the public sector context when adapting IFRS Accounting Standards requirements or developing additional guidance. This appendix provides a summary of key public sector considerations that are relevant to the development of this Consultation Paper (CP).

Distinct Characteristics of the Public Sector

The Nature of Public Sector Entities

B.2 The public sector includes national and sub-national (regional, state/provincial, and local) governments, and related government bodies. It also includes international public sector organizations, with varying structures and governance arrangements.

B.3 The Preface to the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities highlights several key characteristics, such as the:

(a) Primary objective is not profit-driven – the primary objective of most public sector entities to deliver services to the public, rather than to make profits or generate a return on equity to investors.

(b) Nature of public sector programs and longevity of the public sector – many programs are long term and the ability to meet commitments depends upon future taxation and contributions. While political control may change regularly, nation states generally have very long existences. Sub-national entities may rely on national governments as funders, potential lenders of last resort, or to provide large scale guarantees, or may see a change in its service delivery objectives from higher levels of government. However, non-governmental public sector entities, such as international aid organizations, rely more on external funding to sustain operations and therefore, are more vulnerable to material economic uncertainties that may affect their ability to continue as a going concern.

(c) Volume and financial significance of non-exchange transactions – non-exchange transactions, where an entity receives value from another party without directly giving appropriately equal value in exchange, are common in the public sector. The provision of goods and services by public sector entities is generally non-exchange in nature because the benefits individuals or group of individuals receive normally do not directly correspond to the taxes, contributions, and fees they pay.

Key Considerations

B.4 The unique nature of the public sector gives rise to a few key considerations which are relevant to the development of presentation requirements for IPSAS Standards to support accountability and informed decision-making.

B.5 Since the primary objective of most public sector entities is to deliver services to the public:

(a) Long-term fiscal sustainability information is useful – in addition to going concern, users of financial statements gain useful insights on the interrelated dimensions of the entity's long-term fiscal sustainability: service, revenue, and debt; and

(b) Assets may be held for operational capacity rather than financial capacity – public sector entities may primarily hold certain assets for its operational capacity, rather than its financial capacity. This was a

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key driver behind the IPSASB's development of a public-sector-specific measurement basis, current operational value, to measure assets based on its intended primary objective.

B.6 Given their long-term nature and engagement in non-exchange transactions:

(a) Governments' broad powers enable them to continue delivering services in the long-term – governments generally have broad powers, including the power to levy taxes and to create, enforce, and amend legal requirements. Taxation is a legally mandated, compulsory non-exchange transaction between individuals or entities and the government. Tax-raising powers can vary considerably between jurisdictions, depending upon the relationship between the powers of the national government and those of sub-national governments and other public sector entities. Other government entities without tax-raising powers mostly depend on government transfers to finance their operations.

(b) Non-government entities face different challenges to continue delivering services in the long-term – international public sector entities are largely funded by transfers from national, regional, and state governments, and such funding may be governed by treaties and conventions or on a voluntary basis. These entities may also rely on other funding sources.

B.7 Public sector entities differ in nature, service delivery objective, and jurisdiction-specific factors. Consequently, the primary users of financial statements may differ by entity, as entities serve potentially different groups of service recipients and resource providers. These differences directly influence an entity's considerations regarding what information would meet the needs of its financial statement users, as some information may be of more interest or greater use to some users than others. The following are examples for illustration purposes:

(a) A federal government serving its nation will respond to the information needs of its service recipients (e.g., citizens), resource providers (e.g., taxpayers, other government entities, lenders), and representatives of the interests of these service recipients and resource providers (e.g., parliamentarians, ministers, and members of legislative bodies);

(b) A municipal government providing local services to its community will respond to the information needs of its service recipients (e.g., citizens), its resource providers (e.g., taxpayers, other government entities, lenders), and representatives of the interests of these service recipients and resource providers (e.g., city councilors and elected officials);

(c) A hospital providing health services will respond to the information needs of its service recipients (e.g., patients, and medical students) and its resource providers (e.g., government entities, lenders, donors, educational institutions, other organizations, and patients themselves); and

(d) A university offering education will respond to the information needs of its service recipients (e.g., students, researchers, faculty staff) and its resource providers (e.g., government entities, lenders, donors, other organizations, and students themselves).

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Appendix C

Illustrative Examples of Statement of Financial Performance using IFRS 18 Categories

Introduction

C.1 This Appendix accompanies Chapter 4 of this Consultation Paper. Chapter 4 considered whether to require public sector entities to categorize its revenue and expense items on the Statement of Financial Performance into five specific categories (of which Operating, Investing, and Financing are new categories), aligned with IFRS 18.

C.2 The IPSASB considered examples of common types of public sector entities in most jurisdictions, and how their revenue and expense items recognized in surplus or deficit may be categorized in accordance with IFRS 18 categories. These examples are provided for illustrative purposes only, and include some assumptions based on publicly available information.[43]

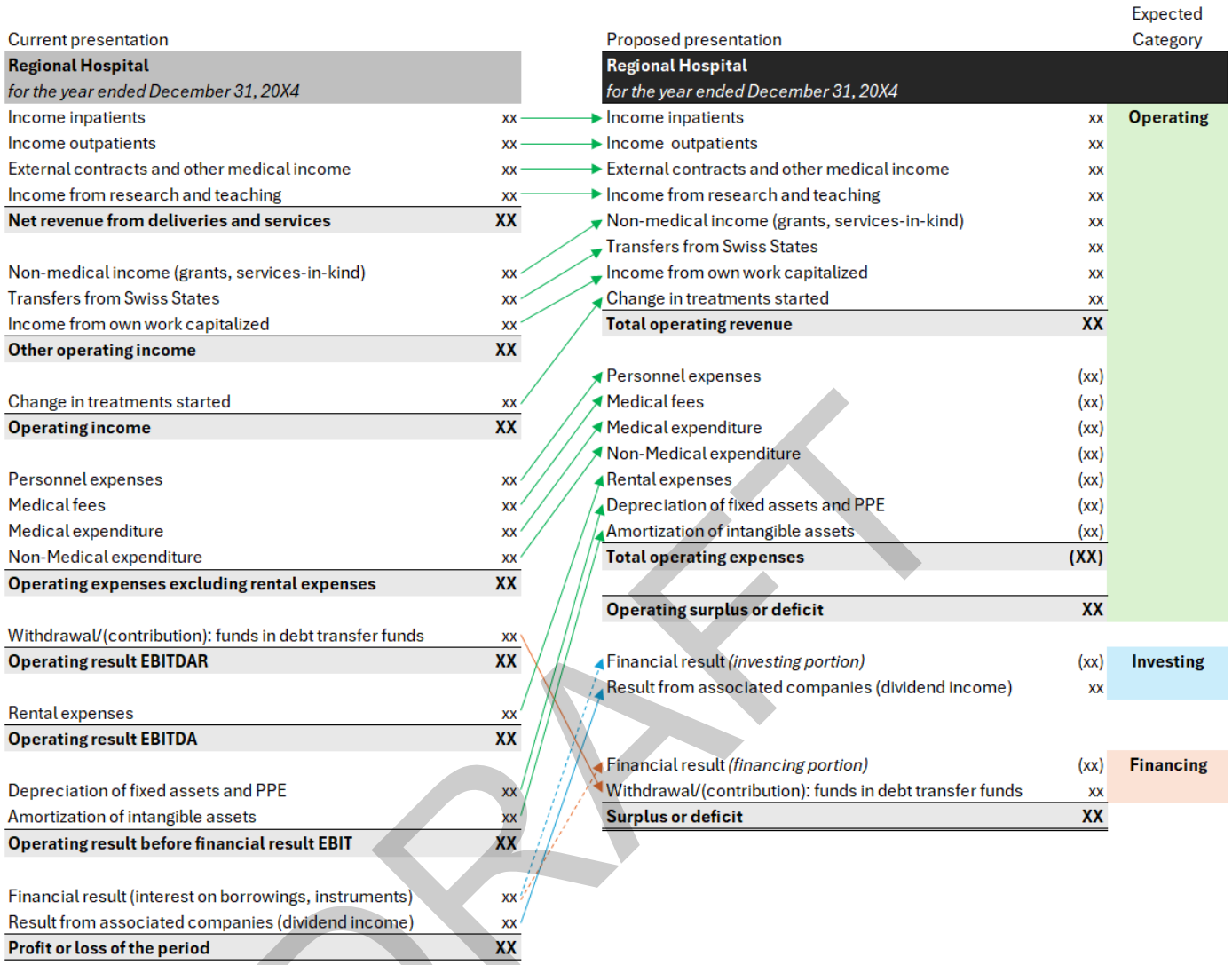
Illustrative Example 1: Municipal Government

Current presentation		Proposed presentation		Expected Category
Municipal Government Body		**Municipal Government Body**		
for the year ended December 31, 20X4		*for the year ended December 31, 20X4*		
Property taxes and taxation from other governments	xx	Property taxes and taxation from other governments	xx	**Operating**
Government transfers	xx	Government transfers	xx	
User charges	xx	User charges	xx	
Municipal land transfer tax	xx	Municipal land transfer tax	xx	
Rent and concessions	xx	Rent and concessions	xx	
Development charges	xx	Development charges	xx	
Investment income	xx	Other revenue sources	xx	
Government business enterprises earnings	xx	**Total operating revenue**	**XX**	
Other revenue sources	xx			
Total revenues	**XX**			
		Transportation expenses *(operating portion)*	(xx)	
Transportation	xx	Social and family services *(operating portion)*	(xx)	
Social and family services	xx	Protection to persons and property *(operating portion)*	(xx)	
Protection to persons and property	xx	Environmental services *(operating portion)*	(xx)	
Environmental services	xx	Recreation and cultural services *(operating portion)*	(xx)	
Recreation and cultural services	xx	Social housing *(operating portion)*	(xx)	
Social housing	xx	General government *(operating portion)*	(xx)	
General government	xx	Health services *(operating portion)*	(xx)	
Health services	xx	Planning and development *(operating portion)*	(xx)	
Planning and development	xx	**Total operating expenses**	**(XX)**	
Total expenses	**XX**			
		Operating surplus or deficit	**XX**	
Annual surplus	**XX**			
		Investment income	xx	**Investing**
		Government business enterprises earnings	xx	
Annual surplus	**XX**			
		Interest expense on long-term debt	xx	**Financing**
		Surplus or deficit	**XX**	

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[43] These assumptions were made in order to complete the illustration. The IPSASB clarifies that changes in any of the assumptions made in this illustration exercise would not substantially change the IPSASB's view on the benefits and feasibility of categorizing revenue and expenses on the Statement of Financial Performance, as presented in Chapter 4.

Illustrative Example 2: Regional Hospital



Current presentation	
Regional Hospital	
for the year ended December 31, 20X4	
Income inpatients	xx
Income outpatients	xx
External contracts and other medical income	xx
Income from research and teaching	xx
Net revenue from deliveries and services	**XX**
Non-medical income (grants, services-in-kind)	xx
Transfers from Swiss States	xx
Income from own work capitalized	xx
Other operating income	**XX**
Change in treatments started	xx
Operating income	**XX**
Personnel expenses	xx
Medical fees	xx
Medical expenditure	xx
Non-Medical expenditure	xx
Operating expenses excluding rental expenses	**XX**
Withdrawal/(contribution): funds in debt transfer funds	xx
Operating result EBITDAR	**XX**
Rental expenses	xx
Operating result EBITDA	**XX**
Depreciation of fixed assets and PPE	xx
Amortization of intangible assets	xx
Operating result before financial result EBIT	**XX**
Financial result (interest on borrowings, instruments)	xx
Result from associated companies (dividend income)	xx
Profit or loss of the period	**XX**

Proposed presentation		Expected Category
Regional Hospital		
for the year ended December 31, 20X4		
Income inpatients	xx	**Operating**
Income outpatients	xx	
External contracts and other medical income	xx	
Income from research and teaching	xx	
Non-medical income (grants, services-in-kind)	xx	
Transfers from Swiss States	xx	
Income from own work capitalized	xx	
Change in treatments started	xx	
Total operating revenue	**XX**	
Personnel expenses	(xx)	
Medical fees	(xx)	
Medical expenditure	(xx)	
Non-Medical expenditure	(xx)	
Rental expenses	(xx)	
Depreciation of fixed assets and PPE	(xx)	
Amortization of intangible assets	(xx)	
Total operating expenses	**(XX)**	
Operating surplus or deficit	**XX**	
Financial result *(investing portion)*	(xx)	**Investing**
Result from associated companies (dividend income)	xx	
Financial result *(financing portion)*	(xx)	**Financing**
Withdrawal/(contribution): funds in debt transfer funds	xx	
Surplus or deficit	**XX**	

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Illustrative Example 3: Education Institute

Current presentation

Education Institute *for the year ended December 31, 20X4*	
Government grants	xx
Tuition fees	xx
Research and contracts	xx
Other revenue	xx
Other gains/(losses)	xx
Transfer of funds from restricted to unrestricted	xx
Total operating revenue	**XX**
People costs	xx
Operating costs	xx
Finance costs of borrowing	xx
Depreciation and amortization	xx
Total operating expenses	**XX**
Net surplus/(deficit) before tax	**XX**
Income tax expense/(benefit)	xx
Net surplus/(deficit) after tax	**XX**

Proposed presentation

Education Institute *for the year ended December 31, 20X4*		Category
Government grants	xx	**Operating**
Tuition fees	xx	
Research and contracts	xx	
Other revenue *(operating portion)*	xx	
Transfer of funds from restricted to unrestricted	xx	
People costs	(xx)	
Operating costs	(xx)	
Depreciation and amortization	(xx)	
Operating surplus or deficit	**XX**	
Other revenue *(investing portion)*	xx	**Investing**
Other gains/(losses)	xx	
Finance costs of borrowing	(xx)	**Financing**
Income tax expense/(benefit)	xx	**Income taxes**
Surplus or deficit	**XX**	

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Appendix D

Illustrative Exposure Draft

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