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October 2012
Comments due: March 31, 2013

IPSASs and Government Finance Statistics Reporting Guidelines

IPSASB International Public Sector Accounting Standards Board

This Consultation Paper, *IPSASs and Government Finance Statistics Reporting Guidelines*, was developed and approved by the International Public Sector Accounting Standards Board (IPSASB).

The IPSASB sets International Public Sector Accounting Standards (IPSASs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

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

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

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REQUEST FOR COMMENTS

Comments are requested by March 31, 2013.

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 file and a 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. Although the IPSASB prefers that comments are submitted via its website, comments can also be sent to Stephenie Fox, IPSASB Technical Director, at stepheniefox@ipsasb.org.

This publication may be downloaded free of charge 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 of the matters discussed in this CP. The CP highlights five specific matters for comment, and one preliminary view reached by the IPSASB. These are provided below to facilitate your comments. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, and contain a clear rationale, including reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.

Specific Matter for Comment 1 *(See Section 3 and Appendix B)*

With respect to the summary in Table 2 of progress on reducing differences and the supporting detail in Appendix B:

(a) Do you agree that the issues categorized as resolved (Category A in Table 2) are indeed resolved?

(b) Are there further differences between IPSASs and GFS reporting guidelines that should be added to this list? If so, please describe these.

Specific Matter for Comment 2 *(See paragraphs 4.11 to 4.17)*

Do you agree that the IPSASB, in conjunction with the statistical community, should develop guidance on the development of integrated Charts of Accounts, which would include (i) an overview of the basic components of an integrated Chart of Accounts, and (ii) wider coverage such as that listed in paragraph 4.16 of this CP?

Specific Matter for Comment 3 *(See paragraphs 5.2 to 5.4)*

(a) Do you think that the IPSASB should take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines?

(b) If so, are there changes other than those listed in paragraph 5.4, which the IPSASB should consider adopting?

Specific Matter for Comment 4 (See paragraphs 5.5 to 5.19)

Are there other areas where IPSAS changes could address GFS differences? Please describe these.

Specific Matter for Comment 5 *(See paragraphs 5.20 to 5.28 and page 39)*

This CP describe three options concerning IPSAS 22: Option A, revisions to improve IPSAS 22; Option B, withdrawal of IPSAS 22 without replacement; and, Option C, replacement of IPSAS 22 with a new IPSAS.

(a) Are there any further IPSAS 22 options that should be considered? If so, what are these?

(b) Which one of the options do you consider that the IPSASB should consider adopting?

Preliminary View 1 *(See paragraphs 5.29 to 5.34)*

The IPSASB should amend Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities,* to include a chapter on IPSAS options that reduce differences with GFS reporting guidelines.

Executive Summary

This Consultation Paper (CP) describes the relationship between IPSASs for accrual-based financial statements and Government Finance Statistics (GFS) reporting guidelines. This CP reviews progress since the IPSASB's last GFS harmonization initiative, and identifies possible further opportunities to reduce the differences.

Significant benefits can be gained from using a single integrated financial information system to generate both IPSAS financial statements and GFS reports. This will reduce GFS report preparation time, costs, and effort, while improvements can be expected in the source data for these reports, with flow-on benefits in terms of report quality, including timeliness. Improvements to the understandability and credibility of both types of reports are also likely to result.

IPSAS financial statements and GFS reports have much in common. Both show (a) financial, accrual-based information, (b) a government's assets, liabilities, revenue, and expenses, and (c) comprehensive information on cash flows. There is also considerable overlap between the two reporting frameworks that underpins this information. But IPSASs and GFS reporting guidelines have some important differences, as a result of their different objectives and separate development. These differences include different reporting entity definitions, and specific differences with respect to recognition, measurement, and presentation. Some differences are fundamental and should be expected to remain, while others should be addressed.

This CP (a) identifies existing differences between IPSASs and GFS reporting guidelines, (b) describes ways to manage those differences, and (c) identifies opportunities to further reduce differences where appropriate. After a brief introduction in Section 1, Section 2 describes the relationship between IPSASs and GFS reporting guidelines. The IPSASB issued a research report on IPSAS/GFS differences, including recommendations for convergence, in 2005. Section 3 of this CP describes progress that has occurred since that report. It groups the differences identified in 2005 as follows:

Category A	Issue now resolved
Category B	Opportunities to reduce differences: IPSASs
Category C	Opportunities to reduce differences: GFS reporting guidelines
Category D	Differences to be managed through information systems design, data collection, and/or mapping.

Section 4 then describes steps that governments can take now to manage IPSAS/GFS differences, and gain benefits for their GFS reporting. It also discusses how the IPSASB could support governments to develop integrated financial information systems that will generate both financial statements prepared under IPSASs and GFS reports. The main focus is on support for governments' development of integrated Charts of Accounts (CoAs).

Sections 5 and 6 describe opportunities that exist for the IPSASB and the statistical community to address the differences in Categories B and C respectively.

IPSASs AND GOVERNMENT FINANCE STATISTICS REPORTING GUIDELINES

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1. Introduction

1.1. Governments produce two key types of ex-post financial information: (a) government finance statistics on the general government sector (GGS) for the purpose of macroeconomic analysis and decision making, and (b) general purpose financial reports (GPFRs) for accountability and decision making at an entity level, including the whole of government reporting entity. This CP focuses on the two reporting frameworks that apply to these two different types of financial information, Government Finance Statistics (GFS) reporting guidelines and IPSASs applicable to accrual based financial statements. There is considerable overlap between these two reporting frameworks.

1.2. Significant benefits can be gained from generating IPSAS financial statements and GFS reports using a single integrated financial information system. This will reduce GFS report preparation time, costs, and effort, while improvements can be expected in the source data for GFS reports with flow-on benefits in terms of report quality, including timeliness. Improvements to the understandability and credibility of both types of reports are also likely to result. The aim of this project is to (a) identify unnecessary differences so as to support their resolution; and (b) harmonize on high-quality reporting practices, consistent with the objectives of both reporting systems. Resolution of differences can be approached from both sides, and this CP identifies opportunities for consideration by both the IPSASB and the statistical community. Opportunities to reduce differences must be considered against reporting objectives, the needs of users of the respective financial reports, and the concepts applicable to each reporting framework.

1.3. Some differences will remain because they reflect the different objectives and uses of the two reporting frameworks. This CP therefore also considers ways to support the management of remaining differences, so that the majority of the benefits outlined above can still be obtained.

Statistical Bases for Reporting Financial Information

1.4. The overarching standards for macroeconomic statistics are set out in the *System of National Accounts* (SNA). The SNA is a framework for a systematic and detailed description of the national economy and its components, including the general government sector and other sectors of the economy. It is under the joint responsibility of the United Nations, the International Monetary Fund (IMF), the Commission of the European Community (EC), the Organisation for Economic Co-operation and Development (OECD) and the World Bank. The latest version of the SNA was issued in 2008. The 2008 SNA updated the 1993 version to address issues brought about by changes in the economic environment, advances in methodological research, and users' needs.

1.5. Internationally recognized macroeconomic statistical methodologies are harmonized with the SNA to the extent possible, while remaining consistent with their own specific objectives. The current version of the European Union's legislated rules for national accounts, the European System of Accounts (ESA 95), is consistent with the 1993 SNA. For non-EU government finance statistics, the key source of guidance is the IMF's Government Finance Statistics Manual (GFSM). The latest version of the GFSM, GFSM 2001, is also harmonized with the 1993 SNA. The ESA and the GFSM are both currently under revision to harmonize them with 2008 SNA.

International Public Sector Accounting Standards

1.6. International Public Sector Accounting Standards (IPSASs) are developed specifically to address the financial reporting needs of public sector entities around the world. A number of the IPSASs have been developed using International Financial Reporting Standards (IFRSs) as a starting point.

However an analysis is undertaken to identify public sector specific issues and address them in order to ensure that the standards reflect public sector circumstances. In addition, the IPSASB has developed five standards that address topics unique to the public sector. IPSASs apply to GPFRs of public sector entities other than Government Business Enterprises (GBEs). GPFRs, which include general purpose financial statements, are prepared to achieve the objectives of GPFRs, which are to provide information about the entity that is useful to users for accountability and decision-making purposes.

1.7. A close relationship exists between the approaches used in IPSASs and GFS reporting guidelines. A government's preparation of financial statistics that meet GFSM or other GFS reporting guidelines is facilitated by applying high-quality accrual accounting standards such as IPSASs. This is because application of a comprehensive and internationally harmonized accrual accounting framework greatly improves the source data necessary for compiling these reports. Source data quality improvements result from (a) applying IPSAS requirements to the recording of balances and transactions, (b) using information systems designed to meet data requirements consequential on application of IPSASs, and (c) applying an independent audit to both the information systems and resulting information.

Harmonization Initiatives

Task Force on Harmonization

1.8. The Task Force on Harmonization of Public Sector Accounting (TFHPSA) was created in 2003. This was the first formal initiative that attempted to harmonize accounting standards and GFS reporting guidelines. The TFHPSA was sponsored by the IPSASB and the IMF, with support from Eurostat and national government and statistical office representatives. The TFHPSA's major outputs were (a) proposals for changes to public sector statistics to inform the 2008 update of the SNA, and (b) a research report, issued in 2005. The research report, *International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence* (the 2005 Research Report), systematically documented similarities and differences between the two reporting frameworks.[1] The TFHPSA's convergence recommendations with respect to financial reporting standards focused on changes to IPSASs.

1.9. Appendix A expands on this introduction, providing further information on reductions in differences between IPSASs and GFS reporting guidelines since the *2005 Research Report*, through:

- IPSAS developments, including issuance of IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, in 2006; and
- Statistical reporting developments, including changes implemented through the SNA, ESA, and GFSM revisions.

1.10. Since 2005, substantial progress has been made on the recommendations included in the TFHPSA's research report. That progress is summarized in Section 3 of this CP, with further detail provided in Appendix B. Appendix A also describes ongoing IPSAS developments, including the IPSASB's Conceptual Framework Project. The 2008 SNA summarized the situation as follows:

> …during the 2008 [SNA] revision, consultation on IASB standards and their counterpart for public sector accounting standards (the International Public Sector Accounting Standards Board, IPSASB) has been extremely beneficial.

[1] Further information on the 2005 Research Report and the TFHPSA is provided in Appendix A.

Alignment Task Force

1.11. In 2011, the IPSASB approved a new project, the *Alignment of IPSASs and Public Sector Statistical Reporting Guidance*, to further reduce the differences between IPSASs and public sector GFS reporting guidelines.[2] This CP is the first formal output from that project. The project has been taken forward by a task force (hereafter "the Task Force"), which has representation from both the IPSASB and the statistical community, including international organizations such as the IMF and Eurostat and country representatives from Brazil, the United Kingdom, South Africa, and Switzerland.

[2] The project brief is available from the project section of the IPSASB website at www.ipsasb.org.

2. Comparison of IPSASs and GFS Reporting Guidelines

2.1. There is considerable overlap between IPSASs and GFS reporting guidelines. This section provides a generalized description of the relationship between IPSASs and the GFS reporting guidelines, focusing on the conceptual differences that explain why the two reporting frameworks differ in certain areas. It provides a summary of how to reconcile these two very similar yet—in important ways—different sets of information. If suitable adjustments are made to address the differences described here, IPSAS-based financial reporting information can be used as a high-quality source for the data necessary for GFS reports. Independent audit of IPSAS-based financial reports, can enhance their usefulness for GFS purposes.

2.2. The description in this section is the same as the one included in an appendix drafted for inclusion in the IMF's forthcoming GFSM 2012.[3] As is the case in the GFSM appendix, readers are referred to the GFSM 2012 for more detailed explanations of GFS reporting guidelines.

2.3. The information provided here is at a high level, and focuses on identification of differences between the two frameworks. It is not designed to provide detailed current information about either IPSASs or GFS reporting guidelines. Detailed information on specific topics can be found through reference to individual IPSASs, 2008 SNA, ESA 2010 and the GFSM 2012. Both IPSASs and GFS reporting guidelines are dynamic and change over time. IPSASs, for example, have annual improvements, which typically impact on a number of different standards. The Conceptual Framework Project, mentioned in Section 1, may also result in changes to IPSASs. A list of IPSASs as of September 2012 is provided in Appendix A. For the most current IPSASs and detailed information on them, it is important to refer to the Standards themselves.

2.4. Differences between IPSASs and GFS reporting guidelines are of two main types: (a) underlying conceptual differences, and (b) presentation and terminology differences.

Conceptual Differences between IPSASs and GFS Reporting Guidelines

2.5. The conceptual differences between IPSASs and GFS reporting guidelines are discussed below under the following headings:

1. Objectives;
2. Reporting entity;
3. Recognition criteria for some assets, liabilities, revenue, and expenses;
4. Valuation (measurement) differences for certain types of assets and liabilities; and
5. Revaluations and other value changes in some cases.

2.6. Table 1 compares IPSASs and GFS reporting guidelines in these areas.

[3] The GFSM 2012 will be available, in draft form, during 2012. The website from which draft chapters can be downloaded is: http://forums.imf.org/gfsm/forumdisplay.php?1-Discussion-forum-for-the-GFSM-2001-Update

Table 1 Summary Comparison of GFS and IPSASs

There is considerable commonality between IPSASs and GFS reporting guidelines. There are also some important conceptual differences within each area below. Presentation and terminology differences are described later in this section.

Government Finance Statistics	IPSASs
Objectives	
Evaluate economic impact: Government finance statistics are used to (a) analyze and evaluate the outcomes of fiscal policy decisions, (b) determine the impact on the economy, and (c) compare national and international outcomes. The GFS reporting framework was developed specifically for public sector input to other macroeconomic datasets.	**Evaluate financial performance and position:** General purpose financial statements are used to evaluate financial performance and financial position, hold management accountable, and inform decision making by users of the general purpose financial statements.
Reporting Entity	
Institutional units and sectors: The statistical reporting unit is an institutional unit, defined as an entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities in its own name. The reporting entity may be an institutional unit, but the primary focus is on a group of institutional units (consolidated sector or subsector). Control and the nature of economic activities determine consolidation and the scope of the reporting entity. The General Government Sector does not include institutional units primarily engaged in market activities.	**Economic entity and consolidation:** The reporting unit for financial statements is an economic entity, defined as a group of entities that includes one or more controlled entities. Control is the main criterion that determines consolidation. The whole of government reporting entity, at the highest level of consolidation, may include, in addition to government departments, sub-national bodies such as state governments, and government owned businesses that primarily engage in market activities.
Recognition Criteria The key difference relates to some liabilities.	
Economic events recognized: GFS recognize economic events on the accrual basis of recording when economic value is created, transformed, exchanged, transferred, or extinguished. To maintain symmetry for both parties to the transaction, some provisions recognized in IPSAS reporting may not be recognized under GFS reporting. While not recognized, those provisions may instead be disclosed as GFS memorandum items as is the case, for example, with exposures to explicit one-off guarantees and provisions for doubtful debts.	**Past events with probable outflows recognized:** IPSASs recognize liabilities, including provisions, when: • A past economic event has taken place; • The amount can be reliably estimated; and • Future outflows are probable. These factors allow, in certain cases, recognition of items that do not involve a counterparty recognizing a symmetrical amount. For example, so long as criteria are met, IPSASs require recognition of restructuring provisions.
Valuation (Measurement)	
Current market prices: Current market prices are used for all flows, and stocks of assets/liabilities, but allowance is made for the use of alternative valuation methods where an active market does not exist.	**Fair value, historic cost and other bases:** Fair value, historic cost or other bases are used for the measurement of assets and liabilities. Similar assets and liabilities must be valued consistently and the bases disclosed. Where an entity reports an item using historic cost, IPSASs often encourage disclosure of fair value if there is a material difference between the reported cost and the item's fair value. Often IPSASs also allow entities to choose between fair value and historic cost.
Revaluations and Other Value Changes	
Record all revaluations and changes in volume in the Statement of Other Economic Flows: Separating all these "other economic flows" is viewed as useful for fiscal analysis, on the basis that revaluations and changes in volume do not represent fiscal policy decisions directly within the control of government. GFS distinguishes between value changes and volume changes.	**Realized and unrealized gains and losses:** Some gains or losses due to revaluations or changes in volume of assets are reported in the Statement of Financial Performance, while others are reported directly in the Statement of Changes in Net Assets/Equity. Some other gains and losses, for example market value changes for PP&E carried at historic cost, are not reported at all.

1. Objectives

2.7. GFS reporting guidelines and IPSASs have different objectives for the two sets of financial information produced. GFS reports are used to (a) analyze fiscal policy options, make policy, and evaluate the impact of fiscal policies, (b) determine the impact on the economy, and (c) compare outcomes nationally and internationally. The focus is on evaluating the impact of the general government and public sector on the economy, and the influence of government on other sectors of the economy. The GFS reporting framework was developed specifically for public sector input to other macroeconomic accounts, although a range of countries adopt GFS reporting for their fiscal reporting, and for measuring compliance with fiscal rules. IPSAS-based financial statements are used to evaluate financial performance and position, hold management accountable, and inform decision making.

2.8. Although the two sets of financial information necessary to meet these different objectives have many similarities, the different objectives do result in some fundamental differences on how and what information is reported. For example, in GFS reports, one distinction for transactions in financial assets and liabilities is whether the counterparty of the transactions is a resident or nonresident.[4] In contrast, IPSAS-based financial statements report these transactions according to whether they are current or noncurrent assets or liabilities[5], with classification also in terms of their maturities and supplementary information provided on risks.

2. Reporting Entity

2.9. One of the fundamental differences between GFS reporting guidelines and IPSASs relates to the definition of the reporting entity and the process of consolidation (collectively often referred to as “identification of the reporting entity boundary"). Under GFS reporting guidelines, as described in Chapter 2 of the 2012 GFSM and in the 2008 SNA, Chapter 4, institutional units are aggregated and consolidated into statistical sectors and subsectors. The focus of statistical reporting is primarily on consolidated sectors and subsectors. Although it is theoretically possible to create GFS reports for individual institutional units, separate statistical reports for individual units are usually not disseminated.[6] Each individual entity in the economy is analyzed with respect to its ability to hold assets and liabilities and exercise full economic ownership over them, to determine if it can be considered an institutional unit.

2.10. Those government-controlled units that are primarily engaged in nonmarket (including redistributive) activities are included within the “general government sector” (GGS). Although all resident government-controlled entities, including public corporations engaged in market activities, are included within the public sector, nonmarket activities determine the delineation of the GGS, as a distinct subsector within the public sector. The GGS does not include institutional units primarily

4 Other required classifications are the classification of instruments, institutional sectors of the counterparty, and maturity structure.

5 The distinction between current and noncurrent assets and liabilities in IPSAS is based on whether the asset/liability is expected to be liquidated in the next accounting period. In the GFS the current and capital distinction is mainly used to make a distinction between transfers of a recurrent nature and exceptional transfers.

6 The United Nations Fundamental Principles of Official Statistics states that individual data collected by statistical agencies for statistical compilation, whether they refer to natural or legal persons, are to be strictly confidential and used exclusively for statistical purposes. However, for government units, for reasons of fiscal transparency, this principle is not always adhered to. (Cfr.Reg. (European Commission) No.223/2009 Chapter V.)

engaged in market activities. The GGS presents consolidated data, which means that transactions and stock positions between GGS units are eliminated[7].

2.11. In IPSASs, the "reporting entity" is a government or other public sector organization, program, or identifiable activity that prepares GPFRs. Within a jurisdiction reports may be prepared on either a compulsory or voluntary basis. A key characteristic of a reporting entity is that there are users who depend on GPFRs for information about the entity. A reporting entity may be a "group reporting entity."

2.12. A group reporting entity consists of two or more separate entities that present GPFRs as if they are a single entity. A group reporting entity is identified where one entity has the authority and capacity to direct the activities of one or more other entities so as to benefit from the activities of those entities. It may also be exposed to a financial burden or loss that may arise as a result of the activities of entities whose activities it has the authority and capacity to direct. If these conditions are met, then the entity is described as a "controlling entity," with control defined according to the principle of exercisable power to govern the financial and operating policies of another entity so as to benefit from its activities.

2.13. The requirement to consolidate entities differs in IPSASs and GFS. Under IPSAS 6, *Consolidated and Separate Financial Statements*, consolidated financial statements are the financial statements of a group of entities presented as those of a single entity. This means that a controlling entity will consolidate the financial statements of all of its controlled entities, irrespective of whether they are (a) resident units, (b) market/nonmarket entities, or (c) the IPSAS equivalent of a market entity, i.e., a "government business enterprise" (GBE).[8] This contrasts with the GGS consolidation approach, described above, where nonresident and market institutional units are included as a single line showing net investment, rather than fully consolidated into the GGS.

2.14. Nevertheless, IPSASs provide for the disclosure of financial information about the GGS. IPSAS 22, *Disclosure of Financial Information about the General Government Sector*, specifically sets aside the application of IPSAS 6 while retaining the application of all other IPSASs. This allows an aggregate presentation that does not consolidate controlled interests in entities in other sectors.

2.15. IPSASs also have a requirement (see IPSAS 18, *Segment Reporting*) that a reporting entity provides disaggregated financial information about each of its segments. The information provided includes segment assets, liabilities, revenue, and expenses. Segments are usually defined either in terms of geographical regions or services. GFS include data on expenditure by function of government.

3. Recognition Criteria

2.16. GFS reporting guidelines and IPSASs both aim to recognize economic events in the period in which they occur. Neither GFS reporting guidelines nor IPSASs allow the application of precaution or prudence to justify the reporting of provisions that anticipate future possible events. However they

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7 This discussion focuses on the GGS. However, GFS also involves presentation of data for all sectors (central government sector, general government sector, nonfinancial public sector, financial public sector) on a consolidated basis.

8 A GBE is defined to be a public sector entity that (a) has the power to contract in its own name, (b) has been assigned the financial and operational authority to carry on a business, (c) sells goods and services in the normal course of its business to other entities at a profit or full cost recovery, and (d) is not reliant on continuing government funding to be a going concern. (See IPSAS 1, paragraph 7.) GBEs are not required to apply IPSASs. Instead they apply International Financial Reporting Standards (IFRSs) or the private sector accounting standards for their national jurisdiction.

differ in their recognition criteria for certain liabilities, because GFS treats uncertainty about future economic outflows differently from IPSASs. The effect of this difference is that IPSASs require more items to be recognized as liabilities than does GFS.

2.17. In macroeconomic statistics, a liability is not recognized until a claim by the counterparty exists. Maintaining symmetry in the macroeconomic statistical system is a fundamental principle. Therefore, GFS guidance is that probable exposures such as contingencies and one-off guarantees should be disclosed in memorandum items, until such time as these are called. Liabilities for government employee benefit payments and certain guarantee schemes are not contingencies, but instead are recognized as liabilities, when future outflows are probable.[9] IPSASs require that where there is a present obligation and an outflow will probably occur, the amount should be estimated and, if it can be reliably estimated, should be recognized as a liability in the statement of financial position (balance sheet).

2.18. The key area of difference is that of "provisions," which IPSASs define as liabilities of uncertain timing or amount (see IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, paragraph 18). Provisions include obligations for which there is no counterparty, for example, provisions for restructuring and environmental restoration. Provisions may also involve an estimate of economic outflow for a group of obligations (for example warranties), on the basis that it is probable that the entity will have to meet a claim by a proportion of the overall group.

2.19. This difference with respect to liability recognition will have consequential differences either for expense recognition or asset recognition. For example, recognition of a provision for restructuring will, under IPSASs, require recognition of a related expense, because there is no compensating increase in asset value. Recognition of a provision for eventual site restoration during construction of a landfill will, under IPSASs, be capitalized, adding to the overall investment in the asset. Under IPSASs, it is also possible for an increase or decrease in the amount of a provision to occur due to an improved estimate. An increase could result in expense recognition, while a decrease could result in revenue recognition. GFS would not recognize either these changes in assets/liabilities or the resulting revenue/expense until a point in the process where another party can be identified as receiving value.

2.20. GFS and IPSASs apply the same broad recognition criteria to assets, with the result that, with a few exceptions such as assets arising from oil and gas exploration, the same financial and nonfinancial assets are recognized. Revenue related to asset recognition is generally also reported at the same point. But other differences, such as asset measurement differences, can affect the asset value recognized and therefore the amount of revenue recognized. The timing of revenue recognition may differ due to differences between when GFS and IPSASs consider either that related obligations have been discharged or that related conditions have been removed.

4. Valuation (Measurement) Bases

2.21. The valuation principles in GFS and IPSASs provide scope for the majority of assets and liabilities to be valued on the same basis, that is, at current market values, except where IPSASs require the use of historic cost or some other measurement basis. Both GFS and IPSASs allow proxies for

[9] GFS guidelines do not recognize liabilities for social security benefits to be paid in the future, but disclose these as memorandum items. Although there is no IPSAS applicable to accounting specifically for social benefit scheme entitlements at time of writing, social security benefits to be paid in the future are also typically not recognized when preparing IPSAS financial statements.

current market value. For example, depreciated replacement cost can be used as a proxy for the current value of specialized assets, if no market price information is available.[10]

2.22. The general valuation principle of GFS is to use current market prices for all assets, liabilities, and related value changes, i.e., for all stocks and flows.[11] As explained in Chapter 6 of the GFSM 2012, where an active market does not exist, the GFS reporting guidelines recommend the use of nominal values for financial instruments, and an estimate of the value of other assets/liabilities. These estimates could be based on (a) prices of similar products in similar markets, (b) the costs of production of similar assets at the reporting date, or (c) the discounted present value of expected future returns on the asset. (See also the GFSM 2012 for a full discussion of the valuation principles of the GFS.)

2.23. IPSASs allow, but generally do not require, the use of "fair value" for many, but not all, assets, liabilities, and related value changes. IPSASs define "fair value" as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction[12]. This is usually similar to the basis used in the GFS. IPSASs also allow assets and liabilities to be valued at historic cost.

2.24. Under IPSASs, financial liabilities (with some exceptions) and financial assets that are (a) held-to-maturity investments, (b) loans and receivables, or (c) investments in equity instruments that cannot be measured at fair value because fair value cannot be determined reliably, are measured at either cost or amortized cost, usually less impairment losses (see IPSAS 29, *Financial Instruments: Recognition and Measurement*). Other marketable financial instruments are measured at fair value. Employee-related liabilities and long-term provisions other than financial instruments are measured at net present value, which may approximate market price. Property, plant and equipment (PP&E) and intangible assets can be valued either at fair value or at depreciated historic cost. Inventory is valued at cost, with a requirement to reduce to net realizable value, if the inventory's net realizable value falls below cost.[13] IPSASs allow investment properties to be measured at fair value, except for those for which a fair value is not reliably determinable on a continuing basis (see IPSAS 16, *Investment Property*, paragraph 62). Biological assets are valued at fair value less costs to sell, provided that fair value can be reliably measured.

2.25. Where an item is reported at its historic cost, IPSASs often encourage or require disclosure of fair value, if there is a material difference between the item's historic cost and its fair value. For example, this is the case for PP&E, intangible assets, and investment properties. In these three cases, the use of historic cost is optional under IPSASs. This means that governments can choose

[10] Differences with respect to how current values are determined can occur in practice, even where agreement appears to exist conceptually. In particular, the views of statisticians and financial accountants can differ on how best to derive current values for long-lived assets, for example infrastructure assets, which have values related to service potential rather than cash flow and for which there is no active market. Statisticians' use of sampling to derive "good enough" estimates of values is also a significant difference.

[11] The main area where this is not the case is the treatment of financial instruments that are presumed to be non-marketable, such as loans. It is also possible that debt instruments may be measured for policy purposes on a "nominal" basis. See the IMF's *Public Sector Debt Statistics Guide for Compilers and Users* (http://www.tffs.org/PSDStoc.htm) for further information on this.

[12] Further information about Phase 3 of the IPSASB's conceptual framework project, which considers different measurement bases, is included in Chapter 5 below.

[13] If inventory is held either for distribution at no charge or a nominal charge, or for consumption in the production process of goods to be distributed at no charge or for a nominal charge, then it is valued at the lower of cost and replacement cost.

to value such assets at fair value. If an entity chooses fair value, then an initial valuation is done at cost, followed by subsequent measurements at fair value. Fair value measurement is not necessarily done annually. Interim measurements will be at the fair value determined at the most recent revaluation less accumulated depreciation or amortization. While the choice of fair value should, theoretically, align IPSAS measurement with GFS measurement, other factors can, in practice, result in differences. Statisticians' measurement practices can involve sampling, indexing to inflation, and other estimation techniques that generate different values from those produced by financial accountants.

2.26. IPSASs require disclosure of the valuation basis for assets and liabilities. This means that IPSAS information makes clear whether or not a current market price has been used to value assets and liabilities. If historic cost has been used to value assets or liabilities, then the IPSAS source data will need to be adjusted from historic cost to current market price before it can be used for GFS. The adjustment will be straightforward where IPSASs already require disclosure of a market price valuation, which may be the case for some types of assets and liabilities where fair value is materially different from cost.

5. Treatment of Revaluations and Other Value Changes

2.27. GFS differentiates between transactions (economic flows by mutual agreement) and other economic flows. GFS records all holding gains and losses (revaluations) and other changes in the volume of assets and liabilities in the Statement of Other Economic Flows, which separates them from transactions. This distinction is useful for fiscal analysis. Other economic flows represent economic value gained or lost due to events that are not directly under the control of the government.

2.28. IPSASs require the majority of revaluations and changes in value to be recorded in the Statement of Financial Performance. Gains and losses recorded in the Statement of Financial Performance are then included in the total net amount that flows from the Statement of Financial Performance into the Statement of Changes in Net Assets/Equity. As a result, the Statement of Changes in Net Assets/Equity reports the total impact of all recognized value changes[14]. Some unrealized gains and losses are not allowed to be recorded in the Statement of Financial Performance and must, instead, be recorded directly in the Statement of Changes in Net Assets/Equity. The main items are foreign exchange gains and losses related to foreign subsidiaries, and revaluations of PP&E.

2.29. Traditionally, the distinction between realized and unrealized gains/losses was viewed as the main difference between items recorded in the Statement of Financial Performance versus those excluded from this statement and, instead, only recorded in the Statement of Changes in Net Assets/Equity. The Statement of Financial Performance was viewed as showing realized gains/losses, while the Statement of Changes in Net Assets/Equity showed unrealized gains/losses. However IPSASs now require many unrealized value changes to be included in the Statement of Financial Performance. For example, value changes due to unrealized revaluations of employee liabilities and impairments are included in the Statement of Financial Performance. The two main exceptions recorded in the Statement of Changes in Net Assets/Equity (foreign exchange fluctuations and revaluations of PP&E and intangible assets) are both unrealized, but they are also viewed as potentially obscuring an entity's financial performance, partly because they are viewed

[14] IPSASs, like GFS reporting guidelines, recognize most but not all value changes. For example, (a) market value changes are not recognized where assets are measured at historic cost, and (b) value changes related to certain types of employee benefit obligations are not recognized.

as outside of management's control, and partly because gains in one year may be reversed in subsequent years.

Presentation and Terminology Differences

2.30. Presentation and terminology differences between IPSASs and GFS reporting guidelines also exist. As a result, the GFS and IPSAS financial statements and disclosures look different, even though the information reported is, largely the same apart from the recognition and measurement differences discussed elsewhere in this paper,. This subsection describes the main presentation and terminology differences between GFS guidance and IPSAS requirements.

2.31. The main presentation and terminology differences are as follows:

1. Different names for the IPSAS equivalents of the GFS statements;
2. The types of classification structures included in the balance sheet (statement of financial position), operating statement (statement of financial performance), and, cash flow statement for the two reporting frameworks differ, which, in some cases, also necessitate differences in terminology;
3. GFS sets out a minimum level of detail for a comprehensive list of standard line items that all entities must report in their GFS statements, while IPSASs establish a minimum set of standard line items, while providing principles and guidance on further line items that a reporting entity may need to report[15];
4. The way in which additional information about the data is disclosed differs in the two frameworks; and
5. The definition and/or value of key statement totals (such as total assets, net worth, total revenue, and surplus/deficit) may differ[16].

2.32. Each of these main differences is discussed below.

1. Different Names for Statements

2.33. The IPSAS equivalents to the GFS statements have different names (see IPSAS 1, *Presentation of Financial Statements*). The IPSAS equivalent to the GFS "Balance Sheet" is a "Statement of Financial Position," although "Balance Sheet" or "Statement of Assets and Liabilities" are acceptable alternatives under IPSASs. The IPSAS equivalent to the GFS "Statement of Government Operations" is a "Statement of Financial Performance," although "Income Statement", "Statement of Revenues and Expenses", "Operating Statement," or "Profit and Loss Statement" are acceptable alternatives under IPSASs. The GFS "Statement of Other Economic Flows" is partly captured in the IPSAS "Statement of Changes in Net Assets/Equity" and partly in the IPSAS "Statement of Financial Performance". "The IPSAS equivalent to the GFS "Statement of Sources and Uses of Cash" is called a "Cash Flow Statement".

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[15] GFS reporting guidelines do not have the concept of materiality, which is an important constraint, under IPSASs, on the level of detail presented. This difference can have the effect of requiring additional data – breakdowns into finer detail for reported totals – that is not needed for IPSAS reporting but is needed for GFS reports,

[16] Where the definitions of totals that contribute to a higher level aggregate differ, the higher level aggregate will also differ. See, for example, the discussion below of differences between the IPSAS surplus/deficit and the GFS net operating balance, which result from differences in the definitions of total revenue and total expenses.

2.34. IPSAS financial statements also include a "Comparison of Budget and Actual Amounts," for which there is no GFS equivalent. This information must be provided by all entities that publish an approved budget (see IPSAS 1, *Presentation of Financial Statements* and IPSAS 24, *Presentation of Budget Information in Financial Statements*). It is presented either as a separate financial statement or as additional columns in the financial statements. A separate statement must be used when the budget is on a different basis from the actual reported results. For example, if the budget is prepared on a cash basis, while the results reported in financial statements are prepared on an accrual basis, the Comparison of Budget and Actual Amounts Statement is separate. If they are prepared on the same basis, the budgeted amounts can be fully integrated into the financial statements through the use of additional columns, and a separate statement is not necessary.

2. Classification Structures

2.35. The GFS reporting guidelines classify and group items in its statements differently from IPSASs. At the highest level, the terminology used for classifications are the same, for example, assets, liabilities, revenue, and expenses. However, within these items there are conceptual differences and differences in the structure of subclassifications. The differences reflect the different objectives of the two information sets. For example, IPSASs require that assets and liabilities be presented as current or noncurrent, or that a liquidity structure be followed. This is important for assessing an entity's liquidity and solvency. GFS does not make this distinction in its core statements, but allows a supplementary table on the maturity structure of government's financial assets and liabilities to be compiled. However, GFS requires that assets be presented as financial or nonfinancial, which IPSASs do not require.

2.36. For GFS, standardized economic and functional classifications serve the specific objectives of (a) comparability of the accounts of various government entities and sub-sectors, and (b) international comparability. These classifications are devised to evaluate the impact of the general government and public sector on the economy as a whole, and to identify government's involvement with other sectors. For example, financial assets and liabilities are classified and presented according to whether they are domestic or foreign instruments, to allow an assessment of the government's interaction with the rest of the world. Such a classification is important because fiscal policy decisions on domestic versus foreign instruments are based on different criteria, and also because this classification allows the derivation of a government's impact on the balance of payments of the country. IPSASs do not require this distinction. The standardized GFS presentation also allows the calculation and comparison of analytical measures of fiscal policy such as the primary balance, tax incidence ratio, expenditure by function, etc.

2.37. Counterparty information is collected for both GFS and IPSAS reporting. The GFS economic classification requires counterparty information for flows and stocks (balance sheet) to be reported as standard line items. These identify items for consolidation, and establish the linkages with other sectors of the economy. IPSASs generally do not require counterparty information to be reported on the face of the financial statements or their related notes. However, IPSASs do require counterparty information to be collected (a) by a parent entity to identify intra-group transactions, so that the entity can eliminate those in preparing the consolidated financial statements, and (b) by a subsidiary to identify transactions with the parent entity and other entities that are under common control, so that information about those transactions can be disclosed in the notes. Counterparty information can also be important for risk-related note disclosures and related party disclosures.

3. Minimum Level of Detail

2.38. GFS requires a minimum level of detail to be reported according to a comprehensive list of standard items. The level of detail is presented in standardized items to facilitate consistency over time, comparability, and consolidation of data across units and sectors. However, preparers may choose to provide additional detail.

2.39. IPSASs also require some minimum items to be reported. However presentation is less prescriptive compared to GFS reporting, with preparers required to make decisions about what items are shown, with reference to the purposes and understandability of statements, information relevance, and the principle that material items should be presented separately in the financial statements (see IPSAS 1). For example, preparers may choose between a presentation based on nature or function.

4. Disclosure of Additional Information

2.40. To facilitate the correct interpretation of their GFS reports, compilers are encouraged to present information on the sources, methods, and procedures of the statistics as metadata or footnotes to statistical reports. In particular, information that may have an impact on assessing the statistics should be disclosed in the statistical reports. GFS also uses standard categories of memorandum items to report on items that are not reported in the body of the statements.

2.41. IPSASs require that information that may have a significant impact for users be disclosed in notes to the financial statements. Notes include a summary of significant accounting policies. They also include further detailed information about individual items reported on the face of a statement, for example, (a) a breakdown of PP&E into classes, (b) information about items that are not recognized but nonetheless important (for example, contingencies), and (c) risk information related to financial instruments.

2.42. GFS information is usually presented as a time series of data, so that comparative data for multiple years are presented at the same time. The periodicity of these data could be monthly, quarterly, or annually. IPSASs only require annual reporting, but allow more frequent reporting. Consistent GFS time series may be very long, decades for some countries. Following from this, corrections to data will be required to be made in the period in which errors occurred, irrespective of when the need for such corrections is determined. Financial statements presented according to IPSASs require comparative information for only one previous year, though the number of years involved in calculating adjustments of prior year figures for policy changes and errors is not specified.

5. Mapping from IPSAS Financial Statement Totals to GFS Totals

Total Assets and Total Liabilities

2.43. Some broad classification differences exist between GFS and IPSASs. GFS classifies assets and liabilities in terms of whether they are financial or nonfinancial. IPSASs do not require assets and liabilities to be grouped in these terms, nor do they require summary totals for financial and nonfinancial assets. However they do require financial and nonfinancial assets and liabilities to be separately disclosed, which means that there is sufficient information in an IPSAS statement of financial position (balance sheet) to determine totals for financial and nonfinancial assets and liabilities. Furthermore, GFS classifies financial assets and liabilities into domestic and foreign. IPSASs do not use this classification, although some of these disclosures may be included in an entity's risk management disclosures related to financial instruments. GFS also classifies assets and liabilities according to standardized GFS characteristics/purposes, which can differ from the classifications required by IPSASs. For example, in IPSASs, the classification of property is determined by whether it is an investment property, while GFS distinguishes property according to whether it is a produced/nonproduced asset and whether it is a dwelling, other building, other structure, or land improvement. Similarly, the IPSAS classifications of (a) financial instruments into whether they are for trade or to be held until maturity, (b) whether liabilities are employee liabilities, and, (c) provisions relating to environmental restoration, all differ from the GFS classification.

Net Worth

2.44. The GFS concept of "net worth" plus "equity" (also referred to as "own funds") is equal to IPSASs' net assets/equity:

- In the GFS, net worth for a specific period is defined as total assets less total liabilities. The balance sheet opening net worth + operating balance + changes in all assets and liabilities due to other economic flows = balance sheet closing net worth.
- According to IPSASs, net assets/equity is calculated as the opening net assets/equity + surplus/deficit + items shown directly on changes in equity statement = closing net assets/equity. Net assets/equity is also equal to the net of all assets less liabilities, excluding equity.

2.45. These differences in the calculation of the net balancing item primarily result from the differences between how GFS and IPSASs allocate items to their respective statements (GFS showing other economic flows separately). In addition, it should be noted that, in the GFS net worth concept, equity is treated symmetrically as part of financial assets and liabilities i.e. equity investments within assets, and any equity of the government entity held by non-government units – usually rare for government entities – within liabilities. In contrast, the IPSAS net assets/equity concept includes equity that GFS treats as a liability, whereas investments in another entity's equity are recognized as financial assets.

2.46. In addition to these presentational differences, the values of these items can also differ due to valuation and recognition differences.

Revenue and Expense

2.47. Although the GFS and IPSAS accrual concepts of revenue and expenses are different, they can be reconciled as follows:

GFS (Revenue + Other Economic Inflows) = IPSAS (Revenue + economic inflows recognized directly in Statement of Changes in Net Assets/Equity); and

GFS (Expenses + Other Economic Outflows) = IPSAS (Expenses + outflows recognized directly in Statement of Changes in Net Assets/Equity)

2.48. IPSASs refer to materiality as a classification criterion for revenue and expenses. In this context, in addition to the economic classification (as shown), the GFSM and ESA also have a Classification of Functions of Government (COFOG), which can be found in a similar form in IPSAS 22.

2.49. Under IPSASs and GFS, cash flows resulting from acquisitions or disposals of assets are recognized in the Cash Flow Statements. However, in the accrual based accounts the time of recording asset revaluations and the statement in which changes in valuations are recorded may differ. Under IPSAS, assets may be recorded at historical cost or fair value, depending on their nature. Any gain or loss on disposal is a realized holding gain or loss recorded in revenue and expense at the time of disposal. As such these gains/losses are shown as part of surplus/deficit that is recognized in the Statement of Financial Performance. Under the GFS, assets are valued at current market prices and any holding gains or losses are recognized as they occur. These valuation changes are reflected in the Statement of Other Economic Flows. For assets disposed of at prices different from the valuation of the asset, it is deemed that such an Other Economic Flow occurred right before disposal, so that at disposal there is no gain or loss reflected in the Statement of Operations. Therefore the amounts of revenue/expense recognized will differ from that recorded under IPSASs.

Consumption of Fixed Capital (Assets)

2.50. In theory, the GFS concept of consumption of fixed capital (CFC) differs from the IPSAS concept of “depreciation.” The IPSAS concept of “depreciation” involves allocating changes in an asset’s historic cost or current value to the reporting period in which the asset is used, as a measure of the asset’s consumption. The GFS concept of CFC is based on a current value concept – described in 2008 SNA (paragraph 6.240) as the decline, during the course of the accounting period, in the current value of the stock of fixed assets owned and used by a producer as a result of physical deterioration, normal obsolescence or normal accidental damage. CFC is a forward-looking measure that is determined by the benefits that institutional units expect to derive in the future from using the asset in production over the remainder of its service life. In practice CFC is calculated according to aggregated asset groups using a model approach.

2.51. In practice, depreciation would approximate GFS CFC, if similar valuation methods and service lives are assumed for assets, and asset values are close to replacement values through revaluations. Where IPSAS asset values are based on historic cost values, depreciation would usually represent an underestimate of CFC. The difference will be large for governments that have a large stock of fixed assets, as many governments do.

Operating Balance

2.52. The GFS net operating balance is calculated in the same way as the IPSAS “surplus/deficit.” Both are calculated as revenue less expense. However, the value of these two balancing items is likely to differ, because there may be differences between items included in the GFS revenue and expense and those included in IPSAS revenue and expense. This difference can be mainly attributed to the conceptual difference in the treatment of other economic flows.

3. Addressing Differences: Progress and Opportunities

3.1. Significant progress has been made with resolving differences between IPSASs and GFS reporting guidelines. The 2005 Research Report included a detailed analysis of the then differences between the two frameworks, and recommendations for their resolution. The present Task Force began its work by reviewing the progress that had been made, since 2005, on those recommendations. Table 2 below provides a summary of how issues have been resolved in the intervening period, or the further action now proposed. It recategorizes the issues in the 2005 report into the following four groups:

Category A Issue resolved

Category B Opportunities to reduce differences: IPSASs

Category C Opportunities to reduce differences: GFS reporting guidelines

Category D Differences that will need to be managed through systems design, data collection, and/or mapping.

3.2. Issues have been included in Category A if they have either been completely resolved or there is an option in IPSASs which, if adopted, means that there is no difference in treatment at the standards level. Category D covers differences that are expected to continue and will need to be managed. These arise from underlying conceptual differences that cannot be resolved through changes to either IPSASs or GFS reporting guidelines (for example the reporting entity boundary difference).

3.3. For each issue, Appendix B provides further detail supporting the summary in Table 2. Sections 4 to 6 of this CP consider the proposed further actions in more detail.

Table 2 Issues from 2005 Report — Resolution and Proposals for Consideration

A. Issue resolved		
	Issue	*Resolution*
A1	GGS reporting	IPSAS 22 (a) encourages disclosure of information about the general government sector, (b) specifies requirements when a government elects to make such disclosures, and (c) requires a government's investment in public corporations to be recognized at the carrying amount of investees' net assets. (Also see B1 and D1.)
A2	Investments in unquoted shares— measurement	IPSAS 29, *Financial Instruments: Recognition and Measurement* requires fair value where there is a reliable measure, otherwise cost is used. The 2008 SNA adopts a "current market price" basis across all assets.
A3	Employee stock options	2008 SNA (paragraph 11.125) clarified employee stock options guidance, so that there is no difference between IPSASs[17] and the SNA.

[17] IPSASs do not directly address accounting for employee stock options, but it is addressed indirectly through IPSAS requirements with respect to accounting policy choice, which mean that the applicable IFRS will generally be a first choice for accounting treatment where no IPSAS applies.

	Issue	*Resolution*
A4	Non cash-generating assets, including heritage assets—measurement and recognition	2008 SNA has aligned guidance on the valuation of non cash-generating assets. The revaluation options in IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant & Equipment* and IPSAS 31, *Intangible Assets* are aligned with the SNA's use of current market price. IPSAS 17 and IPSAS 31 options to recognize heritage assets allow entities to choose a treatment that is the same as the SNA's recognition of heritage assets.
A5	Borrowing costs	IPSAS 5, *Borrowing Costs,* has the 2008 SNA approach of expensing borrowing costs as its "benchmark treatment."
A6	Defense weapons—capitalization and classification	2008 SNA changes have implemented recommendations on capitalization and classification, from the 2005 report. More guidance is needed to remove differences that arise through different interpretations of IPSASs, and measurement differences may still remain for long-lived, specialized assets. These measurement differences are not specific to defense weapons. (Also see Issues B5, B6, and C1.)
A7	Recognition and derecognition of financial instruments	IPSAS 29's recognition and derecognition requirements mirror those of IAS 39, *Financial Instruments: Recognition and Measurement*. IPSAS 28, *Financial Instruments: Presentation* adopted the requirements of the former IPSAS 15, *Financial Instruments: Disclosure and Presentation* on offsetting. The 2008 SNA requirements in respect of debt defeasance have not changed, but have been elaborated. The IMF's *Public Sector Debt Statistics Guide* and Eurostat's *Manual on Government Deficit and Debt* provide detailed clarifications on debt assumptions.
A8	Costs associated with R&D and other intangible assets	The IPSASB issued IPSAS 31 in 2010. The 2008 SNA revisions are aligned with IAS 38, *Intangible Assets,* with which IPSAS 31 is converged. (Also see C6.)
B. Opportunities to reduce differences: IPSASs *(Discussed further in Section 5.)*		
	Issue	*For consideration*
B1	Reporting entity definition	Consider, as part of the IPSASs 6–8 revision project, whether there is scope to remove differences between the narrative on "control" in IPSAS 6 and the control indicators for the SNA definition.[18]
B2	Currency on issue/seigniorage	Consider whether topic-specific coverage could be developed as part of the public sector-specific financial instruments project.
B3	Subscriptions to international organizations	

[18] The IPSASB's IPSAS 6 – 8 project is considering possible revisions to three related IPSASs, IPSAS 6, *Consolidated and Separate Financial Statements*, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interest in Joint Ventures*.

	Issue	*For consideration*
B4	Inventory measurement	SNA requires current market values. IPSAS 12, *Inventories,* generally requires "the lower of cost and net realizable value." Consider whether there is scope to address this difference.
B5	Defense weapons—capitalization and classification	More detailed guidance is needed. Consider whether development of guidance for inclusion in IPSAS 17 should be included within the IPSASB's work program.
B6	Measurement of assets, liabilities and net assets/equity	Subject to development of the IPSASB Conceptual Framework, consider whether there may be scope to increase the use of current value measurement within IPSASs.
B7	Transaction costs —Costs of disposing of nonfinancial and financial assets	SNA expenses all asset disposal costs related to assets, while IPSAS requires such costs to be expensed in some cases, and capitalized in others. Subject to development of the IPSASB Conceptual Framework, consider whether there is scope to address differences.
B8	Financial statements —presentation, including classification, and aggregates	Subject to development of the IPSASB Conceptual Framework, consider whether a project to review presentation that could reduce differences with GFS should be included in the IPSASB's work program.
B9	Investments in unquoted shares —Presentation of gains/losses arising from remeasurements	Subject to development of the IPSASB Conceptual Framework, this issue could be considered as part of the project proposed for B8.
C. Opportunities to reduce differences: GFS reporting guidelines *(Discussed further in Section 6.)*		
C1	Measurement of assets, liabilities, and net assets/equity	Consider whether discussions could be initiated with key groups to improve measurement consistency, then address through guidance at the detailed level.
C2	Extractive industries—exploration and evaluation; development and production	Consider whether there is scope to clarify statistical guidance. For example, GFSM 2012 is expected to clarify some applicable treatment, based on the 2008 SNA treatment of contract leases and licenses.
C3	Decommissioning/restoration costs	The 2008 SNA (paragraphs 10.51-10.55) already includes decommissioning/restoration costs as costs incurred on acquisition and disposal of assets. Consider whether revisions to related GFS guidelines to reflect the 2008 SNA with supporting detail consistent with IPSAS 17 could further reduce differences.
C4	Public-private partnerships (PPPs) (e.g., BOOT schemes)	The SNA has this issue on its research agenda. Consider whether there is scope to align with IPSAS 32, *Service Concession Arrangements: Grantor*.

	Issue	*For consideration*
C5	Subscriptions to international organizations	Eurostat has completed guidance on subscriptions to multilateral development banks in the most recent revisions to its *Manual on Government Deficit and Debt*. If the IPSASB addresses this topic (see B3 above) the statistical reporting community could consider whether the approach developed, if different, could be adopted for statistical reporting guidelines.
C6	Costs associated with R&D and other intangible assets	Consider whether revisions to statistical guidance, for example further guidance in the GFSM 2012, could address some possible differences in practice. (See D12.)
C7	Low-interest and interest-free loans	The treatment of concessionary loans is on the research agenda of the SNA, and Eurostat is trying to resolve this issue. Consider whether work in this area could reduce differences.
D. Differences that will need to be managed through systems design, data collection, and/or mapping *(Discussed further in Section 4.)*		
	Issue	*Management of Differences*
D1	Reporting entity definition	The basic conceptual difference remains and will need to be managed, through identification of data that relates to the GGS. (Scope to remove differences with respect to indicators of control is addressed in B1.)
D2	Recognition criteria	Management of differences generally involves adjusting IPSAS values to reach an SNA result. Additional disclosures in IPSASs and/or CoA design can facilitate production of GFS reports from IPSAS data, by identifying items for which adjustments will be needed.
D3	Measurement of assets, liabilities and net assets/equity, particularly fair value versus historic cost	Choice of fair value options within IPSASs and the use of disclosed fair values, where IPSAS requires such disclosures or valuations specifically for statistical reporting, are ways to address these differences.
D4	Financial statements—presentation, including classification, and aggregates	There is scope to manage presentation differences through mapping/reconciling amounts from the IPSAS financial statements to the appropriate SNA statements.
D5	Provisions arising from constructive obligations	Additional disclosures in IPSASs and/or Chart of Accounts design facilitate adjustment of amounts for production of SNA reports.
D6	Prior period adjustments/back casting—correction of errors	Management of this issue is needed to provide the time series data that GFS needs. For example, where IPSASs require adjustments and corrections in disclosed comparative periods, statistical accountants apply back casting through the time series.
D7	Nonperforming loans	Difference expected to remain, and will need to be managed.

	Issue	*Management of Differences*
D8	Biological assets	SNA generally classifies animals and plants for one-time use as inventories, while IPSAS 27, *Agriculture* would classify these assets as fixed assets, until they are harvested/slaughtered, at which point they become “agricultural produce,” which is classified as inventory. To facilitate management of this classification difference IPSAS 27 requires disclosure of bearer and consumable biological assets in the notes to the statements so that an entity can reclassify its consumable biological assets as inventory when preparing its statistical report.
D9	Net assets/equity	2008 SNA continues to treat equity as a liability. This difference is expected to remain, and will need to be managed.
D10	Contributions from owners for commercial government operations	IPSASs and SNA agree conceptually on capital injections and both make identification by reference to economic substance rather than legal form. However the application of IPSAS and GFS guidelines may, in practice, result in different conclusions about the substance of a transaction. This difference is expected to remain and will need to be managed.
D11	Transactions between the Central Bank and government entities.	Complexities in terms of (a) transactions between the Central Bank, the national government, and other government entities, and (b) a wider set of issues related to the Central Bank, will need to be identified and appropriately addressed.
D12	Costs associated with R&D and other intangible assets	Differences in terms of the definition of “research” have not been resolved. To the extent that definitional differences flow through into recognition differences, these will need to be managed.

Specific Matter for Comment 1 *(See Section 3 and Appendix B)*

With respect to the summary in Table 2 of progress on reducing differences and the supporting detail in Appendix B:

(a) Do you agree that the issues categorized as resolved (Category A in Table 2) are indeed resolved?

(b) Are there further differences between IPSASs and GFS reporting guidelines that should be added to this list? If so, please describe these.

4. Managing Differences

4.1. As explained in Sections 1 and 2, the overlap between data required for governments' financial reporting and their GFS reporting is large. Both sets of information are financial, accrual-based information, and both show a government's assets, liabilities, revenue, and expenses. Over recent years, there has been significant progress with reducing unnecessary differences between IPSASs and GFS reporting guidelines. Nevertheless differences remain, with some resulting from underlying conceptual differences, which must remain because of the different objectives of the two reporting frameworks. The options for addressing other differences through IPSAS or GFS reporting guideline changes are discussed in sections 5 and 6 respectively.

4.2. This section begins by describing how differences between IPSAS requirements and GFS reporting guidelines can be managed, so that financial statement data can be used as the basis for statistical reports. It then discusses options for further support that the IPSASB could provide in this respect.

Management Approaches

4.3. As a first step, a government (the preparer) is likely to consider whether a difference is material[19]. If the difference is material, then the main approaches that the preparer has available to manage differences between IPSASs and GFS can be summarized as:

(a) Choice of IPSAS accounting policy options;

(b) Chart of Accounts design, and

(c) Production of additional data.

Choice of IPSAS accounting policy options

4.4. In order to meet GPFRs' objectives and qualitative characteristics preparers must choose accounting policies with the aim of achieving faithful representation of the reporting entity's finances. Within these constraints, preparers can improve the support that financial statement data provides for statistical reporting (and reduce the need to collect extra data), by adopting accounting policies for their financial statements that meet both IPSAS and GFS reporting requirements. For example, IPSAS 16, IPSAS 17 and IPSAS 31 allow preparers to measure assets either on a depreciated historic cost basis, or at fair value following initial recognition at cost[20]. GFS reporting generally requires current value measurement (in the form of current market prices), so the fair value accounting option in each standard would provide a better basis for GFS reporting needs. (Measurement differences may still remain, as discussed in Section 2 above, due to differences that can occur in how GFS report preparers determine current values.)

4.5. There are certain items that IPSASs recognize but GFS reporting guidelines do not, and occasionally vice versa. For example, IPSAS 17 provides a choice about the recognition of heritage

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[19] Accountants use the term "material", and this is understood within the context of financial reporting. GFS guidelines do not apply the same concept, but instead set absolute minimum requirements with respect to reporting information, with scope for the preparer to add further information, and use estimates and approximation approaches deemed to be acceptable. The aim is to arrive at the best possible estimate, accepting that it will have some uncertainty around it.

[20] The revaluation option in each IPSAS allows assets to be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent (a) accumulated depreciation and impairment losses, in the case of PP&E or (b) accumulated amortization in the case of intangible assets. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

assets, while GFS reporting requires that heritage assets be recognized. This heritage assets recognition difference can be resolved by choosing the IPSAS 17 option to recognize heritage assets.

4.6. Other factors are important to accounting policy choice. Achievement of the applicable objectives — for both GPFRs and GFS reports – is essential. In the case of the GPFR financial statements, preparers must comply with IPSAS requirements with respect to accounting policy choice, in particular those in IPSAS 3. Cost-benefit could be an important secondary factor. For example, preparers may find that current value estimates provide good enough data for GFS reports, generating similar benefits for less cost than that involved in increasing the use of fair value measurement in the financial statements.

Chart of Accounts design

4.7. An organization's Chart of Accounts[21] (COA) usually serves multiple purposes, including both management and financial reporting. The same accrual based information system that generates data for a government's financial statements can generate most of the data necessary for the government's statistical reports. But to do this the government's CoA needs to include the coding necessary for statistical report classifications, including:

(a) Counterparty information for transactions; and

(b) Statement classifications necessary to map items into the correct statistical categories, where the main additional codes needed will distinguish between:

(i) Transactions and other economic flows.

(ii) Cash, non-cash, and (if necessary) intra-government charges. (The CoA will need to do this at a reasonably detailed line item level.)

(iii) Different categories of financial assets and liabilities, according to the *residency* of the other party to the instruments (debtors for financial assets and creditors for liabilities) and their *currency of denomination* (domestic or foreign).

4.8. With extra codes, such as those listed above, CoA design is able to address:

(a) Classification differences – e.g., statistics needs items to be classified into resident/nonresident, while IPSASs do not require that items be classified in this way;

(b) Definitional differences – e.g., statistics defines certain types of defense weapons to be inventory, while the same weapons would be defined as PP&E under IPSAS;

(c) Recognition differences, where IPSASs recognize an item that statistical reporting does not recognize – e.g., statistical reporting does not recognize the up-front financial impact of concessionary loans, while IPSAS financial reporting does; and

(d) Financial statement location differences – e.g., GFS reports include an item as an expense in the Operating Statement, while IPSAS financial statements include the same item as a distribution to owners and include it in the Statement of Movements in Net Assets/Equity. This type of difference is basically another type of classification difference.

[21] The term "Chart of Accounts" is used here with its broad sense, that is a chart that encompasses all the codings used by a financial information system to produce accruals financial statements.

Production of additional data

4.9. While accounting policy choice can reduce the extent to which new data is needed, it is likely that, after further alignment has been achieved through the information system's CoA design, further data will still be needed to generate GFS reports. For example, it may be necessary to carry out a separate valuation of inventory assets, because the inventory is valued at cost for the financial statements, and the GFS reporting guidelines require current market values. (Depending on the amount of inventory and its turnover, this measurement difference may not be material.)

4.10. Table 3 below illustrates how each management approach relates to the types of differences identified in Section 2 (Table 1).

Table 3: Management of Differences

Difference	**Management**
1. Reporting entity boundary	*CoA design*: Include additional GFS related codes to identify items included in GPFRs but not in GGS (or vice versa), so that they can be excluded from the relevant reports.
2. Recognition criteria for some assets, liabilities, revenue, and expenses: (a) Item is recognized in IPSAS financial statements and *not* recognized in GFS reports (b) Item is *not* recognized in IPSAS financial statements and recognized in GFS reports	(a) *CoA design*: Include code that identifies items that are not recognized in GFS statements, so that they can be excluded from those statements and, where appropriate, included in the appropriate GFS supplementary schedule. (b) Either: (i) *Choice of IPSAS option*: Where IPSAS allows a GFS aligned accounting option to be chosen for the financial statements, choosing that policy will help to ensure that the necessary data is available for GFS report use. (ii) *Produce additional data:* Generate the necessary data for GFS report needs, outside of the accounting information available for the financial statements.
3. Valuation (measurement) differences for certain types of assets and liabilities	Either: (a) *Choice of IPSAS option:* Wherever possible and appropriate, alignment of measurement for financial statements with that needed for GFS reporting will help to ensure that financial statement data provides a better basis for GFS data needs. (b) *Produce additional data:* Carry out a separate valuation to generate values needed for GFS reporting.
4. Revaluations and other value changes in some cases	*CoA design*: Include additional GFS related code to identify items that belong in (a) specific GFS statements, (b) aggregate totals, and/or (c) supplementary schedules, so that they can be included in the appropriate place for GFS reports. Where value changes are not included in GFS reports, then additional coding is needed to allow those amounts to be excluded.
5. Presentation	*CoA design*: Include code that allows items that belong in specific GFS statements/totals to be directed into those specific statements/totals.

Support for Preparation of GFS Reports from Financial Statement Data

Standard CoA

4.11. The CoA is a critical element of a government's public financial management framework. The question arises whether a standard CoA could be developed that would (a) address both IPSAS requirements and GFS needs, and (b) meet the CoA classification needs of all governments. This type of standard, comprehensive CoA would provide benefits in terms of international comparability of financial statements and GFS reports, as well as supporting governments' adoption of accrual accounting.

4.12. Although this idea appears initially to have the potential to provide major benefits in terms of supporting governments' dual reporting, the following disadvantages of developing a standard CoA for global use would outweigh these:

(a) A single, standard CoA would apply a "one size fits all" approach, when this is inconsistent with inter-country differences resulting from culture, politics, geography, etc.;

(b) Comprehensive capture of all the data needs of different governments would necessitate a very large amount of detail, but

(i) only a smaller subset of the resulting codes would be relevant to any particular government; and

(ii) more detail would mean an increased likelihood of incorrect entry of data, and higher training costs for staff entering data into the CoA; and,

(c) Development and maintenance would be very resource-intensive.

4.13. A common taxonomy such as the XBRL taxonomy, which already exists for IFRS, might also be helpful. While the IPSASB is not in a position to develop such a taxonomy, there may be scope to consider the possibility of contributing to its development, if initiated by others.

Developing guidance on integrated CoAs

4.14. An alternative to developing a standard CoA is for the IPSASB to develop guidance on integrated CoAs, including a description of the main components necessary to meet both IPSAS and GFS reporting needs. This description would address the fundamental distinctions essential for the mapping of IPSAS data into GFS classifications. These would include financial statement presentation differences, which ensure the system can generate key GFS indicators such as (a) gross and net operating balances, (b) net lending/borrowing, (c) fiscal burden, and (d) the different GFS debt concepts. Classifications to address recognition and valuation differences would also need to be addressed. Adopting this approach would mean that governments would need to do their own analysis of IPSAS requirements, GFS reporting needs, and their specific financial management and accountability needs, when developing or upgrading their financial information systems.

4.15. Principles applicable to development of an integrated CoA could include:

(a) Being structured according to the main elements of reporting (assets, liabilities, etc.);

(b) Incorporating the more detailed GFS structure, including disclosures (memorandum items);

(c) Incorporating all IPSAS numeric disclosure requirements, e.g., PP&E, Investment Properties, Agriculture, Cash Flow reconciliation, Provisions. (In this way, not only are the statement items included, but the note disclosure breakdown is included as well.);

(d) Holding data at the lowest level required by either GFS or IPSAS to facilitate reporting for each item to be disclosed; and

(e) Identifying measurement and recognition differences, so that such differences can be reported and explained where necessary, and production of statistical reports thereby facilitated. (For example, the structure needs to capture IPSAS provisions, and then facilitate the unpacking of those provisions between GFS assets/liabilities, GFS memorandum items, and those provisions not recorded at all in GFS reports.)

4.16. The guidance could also cover a wider set of issues related to development of an integrated CoA. For example, it could cover

(a) A description of the benefits that an integrated CoA will deliver;

(b) Project management, process, and business case considerations, such as

(i) the inclusion of GFS in the description of the government's business needs that the CoA should address, the project brief, and information system specifications;

(ii) specification that the information system consultants have expertise (or access to expertise) on GFS reporting needs and how those needs can be integrated into an IPSAS information system;

(iii) development of expertise on GFS reporting needs on the part of government accountants and/or inclusion of GFS experts in the accounting department;

(iv) involvement of government statistics office representatives in financial information system projects, with communication on the benefits that statisticians will gain from a well-designed integrated system; and

(v) system training that includes coverage of GFS reporting needs; and

(c) Website or other access to (i) guidance on CoA design, and (ii) CoA examples, from governments that report on an IPSAS basis and include additional GFS functionality.

4.17. Development of such guidance should be in conjunction with representatives of the statistical community, and could involve a joint project between the IPSASB and the statistical community. Section 5 includes discussion of options for publication of such guidance, including its inclusion in the IPSASB's Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities*.

Specific Matter for Comment 2 *(See paragraphs 4.11 to 4.17)*

Do you agree that the IPSASB, in conjunction with the statistical community, should develop guidance on the development of integrated Charts of Accounts, which would include (i) an overview of the basic components of an integrated Charts of Accounts, and (ii) wider coverage such as that listed in paragraph 4.16 of this CP?

5. Opportunities to Reduce Differences: IPSASs

5.1. This section focuses on possible ways that the IPSASB could support the reduction of unnecessary differences between IPSASs and GFS reporting guidelines. It sets out (a) potential changes to the IPSASB's standard-setting approach that could better support resolution of GFS differences, (b) options for addressing the Category B issues identified in Section 3 above, (c) options for the future of IPSAS 22, and (d) proposals with respect to providing guidance on GFS-aligned accounting policy options within IPSASs, including providing such guidance in Study 14, along with guidance on development of integrated CoAs.

Potential Changes to IPSASB's Standard-Setting Approach

5.2. Given the benefits arising from using IPSAS-based data for GFS reports, the question arises of whether there is scope for the IPSASB to take a more systematic approach to addressing GFS differences.

5.3. The IPSASB's terms of reference and the preface to the IPSASB's *Handbook of International Public Sector Accounting Pronouncements* (the IPSAS Handbook) set out critical aspects of the IPSASB's standard-setting, including the IPSASB's objective, meeting procedures, and due process. When considering possible changes to the IPSASB's standard-setting approach, reduction of differences between IPSASs and GFS reporting guidelines must be viewed within the broader context of the IPSASB's Conceptual Framework, priorities, and resources. Once completed, the IPSASB's Conceptual Framework will establish the concepts underlying the future development of IPSASs and other documents that provide guidance on information included in GPFRs. IPSAS changes to address GFS differences will need to be consistent with the Conceptual Framework.

5.4. A more systematic approach to minimizing differences with GFS reporting guidelines could involve changes to the IPSASB's standard-setting approach such as:

(a) A positive commitment not only to avoid unnecessary differences between GFS and IPSASs and support their reduction, but to make the reduction of unnecessary differences a more important factor in the review and development of IPSASs;

(b) Development of criteria or broad policies that could guide the decision process that the IPSASB follows when considering issues that impact on GFS differences;

(c) GFS issues (i) considered regularly by the IPSASB, and (ii) where appropriate included in the biennial improvements projects that currently address IFRS changes and IPSAS standards-wide issues;

(d) Inclusion of reference to the reduction of differences, where appropriate, between IPSASs and GFS reporting guidelines in the IPSAS Handbook's preface[22]; and

(e) Inclusion of GFS comparisons in all IPSASs, similar to the IFRS comparisons already included.

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[22] The IPSASB's terms of reference note that, in pursuit of its objective, the IPSASB supports the convergence of international and national public sector accounting standards and the *convergence of accounting and statistical bases of financial reporting where appropriate*; and also promotes the acceptance of its standards and other publications. *(Italics added.)*

Specific Matter for Comment 3 (See paragraphs 5.2 to 5.4)	
(a)	Do you think that the IPSASB should take a more systematic approach to reducing differences between IPSASs and GFS reporting guidelines?
(b)	If so, are there changes other than those listed in paragraph 5.4, which the IPSASB should consider adopting?

Options for the IPSASB's Work Program

5.5. Actions that the IPSASB could consider taking to support governments' production of statistical information include:

- Recognition and measurement requirements: Change the requirements in existing IPSASs to further align them with GFS reporting guidelines.
- Disclosures: Include optional additional disclosures in IPSASs to facilitate production of statistical information, where the fundamental requirement remains unaligned. For example, additional IPSAS disclosures can support the management of recognition and measurement differences. If IPSASs have recognized items that SNA does not recognize (for example, certain types of provisions), then disclosure of those amounts in the notes can help their subtraction in order to arrive at the SNA information.
- Guidance: Provide guidance to promote scope to use IPSAS financial statement data as the basis for GFS reports in (a) IPSASs, (b) Study 14 and/or (c) on the IPSASB's website.

5.6. Category B in Table 2 identifies the differences that the Task Force considers capable of resolution through changes to IPSASs. The issues on which the IPSASB solicits feedback with respect to their inclusion in the IPSASB work program are described below. These are grouped in terms of whether (a) they have already been linked to an existing project on the IPSASB's current work program, (b) they are not linked to any existing project, but could be considered for inclusion in the annual improvements process, if this were expanded to include addressing the more minor GFS differences, and (c) issues linked to the outcomes of the IPSASB's Conceptual Framework project.

5.7. The Taskforce has identified these issues as ones on which progress to reduce unnecessary differences could potentially be made. Depending on constituents' feedback on this CP, and the IPSASB's assessment of that feedback within the context of other, competing priorities and existing resources, consideration of some or all of these issues may be included within an existing or future IPSASB project. However, consideration of issues will be from a wider perspective than that of addressing GFS differences. The outcome of any such consideration may achieve this objective, but that is not a foregone conclusion.

Issues linked to Existing Projects

Reporting Entity Definition (Issue B1)

5.8. The basic conceptual difference between the two different definitions of a reporting entity will always remain. This conceptual difference has two main effects. First, the GGS reporting entity excludes market entities from its coverage. Second, the GGS reporting entity consolidates government entities even where they are not controlled by the national government. For example, all local governments are consolidated into a subsector due to the nature of these entities rather than a control criteria. However there appears to be scope to reduce differences between IPSAS 6's guidance on the application of control and the SNA's control indicators. The IPSASB has approved a project, for its current work program, to revise IPSAS 6, IPSAS 7, *Investments in Associates*, and IPSAS 8, *Interests in Joint Ventures*. The issue has been included for consideration in that project.

Currency on Issue, Seigniorage (Issue B2)

5.9. The IPSASB has discussed development of guidance on this topic. The issue has been included for consideration as part of an IPSASB project on public sector-specific financial instruments.

Subscriptions to International Organizations (Issue B3)

5.10. The SNA treatment has moved to an accrual basis, which brings it closer to IPSASs generally. But IPSASs do not specify the treatment of different types of subscriptions. The 2008 SNA guidance indicates that transactions with international and supranational organizations, including membership dues and subscription fees payable to international organizations, may not be treated as transfers, but as payments for a service, recorded on an accrual basis. Exceptionally, and when there is a possibility (even if unlikely), of repayment of the full amount, the payment may be represented as a financial asset. Similar guidance in the updated GFS reporting guidelines will clarify that, depending on their nature, "subscriptions" to international organizations could give rise to expenses. Eurostat has just completed guidance on subscriptions to multilateral development banks in its *Manual on Government Deficit and Debt*. The guidance calls for recording as expenditure all those subscriptions to loan facilities that make concessionary loans. The treatment of subscriptions to international organizations has been included for consideration in the IPSASB"s planned project on public sector-specific financial instruments.

Issues for Potential Consideration in Biennial Improvements Work

5.11. As discussed above the IPSASB's biennial improvements project is currently focused on IFRS improvements and minor changes to existing IPSASs. If the scope of the biennial improvements project was changed to allow GFS differences to be considered, then the following two items may be candidates for consideration through this mechanism.

Inventory Measurement (Issue B4)

5.12. SNA requires current market values for inventory. IPSAS 12 generally requires "the lower of cost and net realizable value", except in certain circumstances where it is the lower of cost and current replacement cost. In practice, IPSAS 12 means that inventory will most commonly be measured at cost, because cost is usually the lower value. There may be scope to address this difference.

Defense Weapons—Capitalization and Classification (Issue B5)

5.13. IPSAS requirements and GFS reporting guidelines are aligned. But practices can vary due to lack of clarity about how to apply the different requirements and guidance. IPSAS 17 should include more detailed guidance on (a) when defense weapons should be classified as PP&E and when they should be classified as inventory; and, (b) when defense items should be capitalized rather than expensed.

Issues Linked to Conceptual Framework Outcomes

5.14. There are several issues where further reduction of differences may be possible, depending on the positions finally adopted in the IPSASB's Conceptual Framework Project. The projects below could then be considered for IPSASB work program inclusion.

Measurement of Assets, Liabilities, and Net Assets/Equity (Issues B5, B6 and B7)

5.15. The SNA has a comprehensive requirement for current value (current market price), while measurement guidance in IPSASs allows both current value (in the form of "fair value") and historic cost. IPSAS changes since the 2005 Research Report have resulted in increased scope for entities to use fair value or use IPSAS-required disclosures to manage this difference. Where an IPSAS does not require fair value, but allows entities to choose to use fair value, that choice at the standard-setting level allows entities, in practice, to align their measurement approach with GFS requirements. Where an IPSAS requires disclosure of fair value in the notes, while requiring an entity to report using historic cost, the fair value information that the GFS requires is therefore available, even though the reported amounts in the IPSAS financial statements will be different from those in the statistical reports. In some situations, IPSASs also treats transaction costs differently from the 2008 SNA.

5.16. Phase 3 of the IPSASB's Conceptual Framework is developing the measurement concepts that will underpin the selection of measurement bases in IPSASs. Depending on the IPSASB's conclusions this phase could result in a changed approach to current value in IPSASs. An exposure draft (ED) has been approved and will be issued for comment in late 2012. The ED addresses historical cost and four current value measurement bases: market value, replacement cost, net selling price, and value-in-use. It also considers (a) the fair value measurement model for estimation of market value where it has been decided that market value is an appropriate measurement basis, but an active market does not exist, and (b) the deprival value model for selection of a current value measurement basis for operational assets.

5.17. There is also scope to improve the consistency of approaches to current value measurement, and the related guidance. For example, discussions on measurement/valuation between the IPSASB, the International Valuation Standards Council (IVSC), and the statistical community could be initiated in order to develop a comprehensive, agreed-upon description for each measurement basis used for public sector financial reporting. The resulting description and recommendations could be used to improve the way that measurement is treated in the IPSASs and in the measurement guidance in Study 14. The IPSASB supports discussions being initiated between the IPSASB, the IVSC, and members of the statistical community to develop a comprehensive, agreed-upon description of acceptable public sector valuation bases.

Financial Statement Presentation, Including Gains/Losses Arising from Asset and Liability Remeasurements (Issues B8 and B9)

5.18. Issue B8 relates to the broad issue of presentation differences, which encompasses Issue B9's difference with respect to the treatment of remeasurement of investments in unquoted shares. There are two types of presentation differences:

(a) Statement location: Presentation of reported amounts in different financial statements. (For example, IPSAS and SNA present value changes due to remeasurement of investments in unquoted shares in different statements.)

(b) Aggregates in statements:[23] Presentation of aggregates that are either (a) defined differently, or (b) have no equivalent, in the other reporting framework. (For example, IPSAS and GFS differ on the notion of "cash surplus/deficit" in the Statement of Cash Flows.)

5.19. Depending on the outcome of the IPSASB's Conceptual Framework Project, resolution of financial statement presentation differences may be possible in the longer term. Consideration of presentation differences would then be part of medium to longer term projects. (Section 4 discusses ways to manage presentation differences, through the use of CoA design. It includes an SMC on the possibility of the IPSASB developing guidance on CoA design that facilitates mapping line items from IPSAS financial statements into GFS reports.)

Specific Matter for Comment 4 (Paragraphs 5.5 to 5.19)

Are there other areas where IPSAS changes could address GFS differences? Please describe these.

IPSAS 22 Options

5.20. The IPSASB developed IPSAS 22 to support governments' GFS reporting, and in response to a recommendation in the TFHPSA's 2005 Research Report. IPSAS 22 was issued in December 2006. Since then there have been significant developments, including revisions to the GFS related pronouncements referred to in IPSAS 22. At a minimum, revisions to IPSAS 22's references to GFS related pronouncements appeared necessary. This CP proposes that constituents consider the possibility of more fundamental change. The three IPSAS 22 options proposed for consideration are: (a) revisions to improve IPSAS 22, (b) withdrawal of IPSAS 22 without replacement, and (c) replacement of IPSAS 22 with a new IPSAS, that could perhaps follow an approach similar to that in the Australian standard, AASB1049, *Whole of Government and General Government Sector Financial Reporting*. (An overview of AASB 1049's approach is provided on page 39.)

Option A: Revisions to IPSAS 22

Update of terminology/cross references

5.21. IPSAS 22, in its current form, refers to the 93 SNA, GFSM 2001, and ESA 95. The SNA has been updated to 2008 SNA. Revisions to the ESA and GFSM are also expected to be approved during 2012. At a minimum therefore, the cross references in IPSAS 22 need to be updated. IPSAS 22's implementation guidance illustrates GGS disclosures in IPSAS financial statements, and may also require revisions consequential upon changes to other IPSASs.

Other Possible IPSAS 22 Revisions

5.22. Other possible revisions to IPSAS 22 for consideration are set out below:

(a) Include guidance on IPSAS options that are aligned with GFS reporting guidelines;

(b) Amend the IPSAS 22 requirement to list significant controlled entities to instead allow a cross reference to a register of GGS entities provided by the applicable statistical body;

[23] Differences in aggregates can also be a consequence of recognition or classification differences. (For example, the GFSM includes notional cash flows such as finance leases as expenditures in the cash flow statement. These are not reported as cash flows under IPSAS.) These differences change the overall aggregates reported, but are not classified as presentation differences.

(c) Include an illustrative explanation of the relationship between GFS information and IPSAS information in an appendix to IPSAS 22;

(d) Include GFS-aligned illustrative financial statements in an appendix to IPSAS 22 and/or guidance on mapping from IPSAS totals to key GFS totals; and

(e) Extend the existing treatment of reconciliations to require reconciliations, but allow them to be numerical, narrative, or graphical in form.

5.23. With respect to (b) above, IPSAS 22 requires a list of significant controlled entities to be disclosed (see paragraphs 40–42). Identification of GGS entities involves challenges, including clarification of (a) those entities that meet the GGS definition of GBEs (excluded from GGS), and (b) those that meet the GGS concept of a nonmarket entity (included in GGS), which focuses on an entity undertaking nonmarket activities, rather than operating from a not-for-profit perspective. Eurostat now requires governments to publish a register of GGS bodies. A link to such a statistical register, when available, could be a more reliable way to achieve the same result as that intended by the present IPSAS 22 requirement.

5.24. Points (c) and (d) above relate to support for reduction of differences between GFS and IPSAS financial statements presentation. A further approach to support such reductions, outside of IPSAS 22, would be to revise IPSAS 1 and IPSAS 2. Those two standards could be revised to include GFS-aligned presentation as an acceptable alternative presentation option to the present treatment, which national governments that prepare consolidated accounts could choose to adopt.

Option B: Withdrawing IPSAS 22

5.25. IPSAS 22 requires additional disclosures, which aim to support preparation of GFS reports. It does not replace the need to prepare separate GFS reports. IPSAS 22 applies to a government where it "…elects to disclose financial information about the general government sector…" (paragraph 2, IPSAS 22). Of those governments that issue accrual consolidated government financial statements, none have chosen to provide those disclosures as part of their GPFRs. In Australia, where integration of government GFS information with their accounting information has been a major reporting issue, IPSAS 22's disclosure approach was considered and rejected in favor of a different approach, embodied in AASB 1049. In other jurisdictions, GFS data is published separately, instead of as part of the financial statements. Given IPSAS 22's lack of uptake by governments, and that the issue can arguably be better addressed through other mechanisms, the option of withdrawing IPSAS 22, rather than revising it, could be considered.

Option C: Replacement of IPSAS 22 with Integrated Approach to Financial Statements and GFS Reports

5.26. Another way to support alignment is to take an "integrated approach," perhaps based on that taken in Australia, and embodied in AASB 1049. This would mean withdrawing IPSAS 22, and replacing it with an IPSAS for application to consolidated government financial statements[24] and GGS financial reports. The new IPSAS would include (a) GFS consistent presentation requirements applicable to GGS financial reports and the consolidated government financial statements, (b) identification of

[24] "Whole of Government" covers consolidated financial statements for a single government. If a national government controls all lower levels of government − where "control" relates to IPSAS 6's definition of control for consolidation purposes – then its financial statements will consolidate those lower level governments. In situations where lower levels of government are not controlled by the national government, as is generally the case for federations and may also be the case for other local government structures, whole of government reporting at the national level would not consolidate those entities.

GFS aligned options in other IPSASs applicable to GGS financial reports and the consolidated government financial statements; and (c) specification of the entities to be consolidated in the GGS financial statements, and the consequential accounting for investments in those statements.

5.27. That approach would ensure that there is consistency in the GAAP/GFS harmonized information reported in the GGS financial reports and the consolidated government financial statements. The Australian development of an integrated approach, as an illustrative example, is described on the following page.

5.28. Feedback from constituents is needed on the three options described, Option A, revise IPSAS 22, Option B, withdraw IPSAS 22 without replacement, and, Option C, replace IPSAS 22 with an IPSAS that takes an integrated approach.

Specific Matter for Comment 5 (See paragraphs 5.20 to 5.28 and page 39)

This CP describes three options concerning IPSAS 22: Option A, revisions to improve IPSAS 22; Option B, withdrawal of IPSAS 22 without replacement; and, Option C, replacement of IPSAS 22 with a new IPSAS.

(a) Are there any further IPSAS 22 options that should be considered? If so, what are these?

(b) Which one of the options do you consider that the IPSASB should consider adopting?

AASB 1049, *Whole of Government and General Government Sector Financial Reporting*

In Australia, separate application of generally accepted accounting practice (GAAP) requirements and GFS guidelines was viewed by some significant users as causing confusion, because two sets of accrual-based financial statements appeared in governments' reports, reporting different results for the same public sector entity. Australia's Financial Reporting Council asked the Australian Accounting Standards Board (AASB) to develop a framework that harmonized the two financial reporting structures—GAAP and the GFS—to achieve an Australian accounting standard for a single set of government reports. AASB 1049, *Whole of Government and General Government Sector Financial Reporting* (AASB 1049), was initially issued in 2006 to address GGS financial reports, and was reissued in 2007 to also cover whole of government financial reports. A post-implementation review of AASB 1049 took place in 2010-2011. The review identified some areas of improvements, resulting in recent amendments to the Standard, but did not identify any major problems with the Standard's approach.

AASB 1049 takes an integrated approach to GGS and consolidated government financial statements. It specifies requirements that apply to both types of financial reports. The integrated approach reflects (a) the strong relationship between consolidated government financial statements and GGS financial reports, and (b) the importance placed on ensuring that reporting requirements are expressed in the same way for GGS and a government's consolidated financial statements. Requirements differ only where a difference is necessary. AASB 1049 treats GAAP/GFS harmonized reports relating to the consolidated government (which includes the sectors therein, including the GGS) as falling within general purpose financial reporting, with all requirements that apply to GPFRs also applying to GAAP/GFS harmonized reports. At the same time, AASB 1049 establishes the GAAP authority for GAAP/GFS harmonized reports to present the (partially consolidated) GGS, in addition to the (fully consolidated) government financial statements.

AASB 1049 applies GAAP definition, recognition, and measurement principles in almost all cases. This is possible because of the substantial alignment between full accrual reporting and GFS reporting, discussed earlier.[25]

The main changes that AASB 1049 introduced to Australia's public sector GAAP to facilitate GAAP/GFS harmonization were:

1. <u>Presentation</u>: Modification of GAAP presentation principles to accommodate GFS principles to encompass a comprehensive operating statement that retains the GAAP classifications but overlays them with a transactions/other economic flows classification approach based on GFS reporting guidelines.
2. <u>Disclosures</u>:
    - (a) Expanding disclosure requirements to accommodate, on the face of the statements, key GFS fiscal aggregates and the distinction between cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes adopted by the GFS; and
    - (b) Specifying supplementary disclosure requirements, including GFS measures of key fiscal aggregates, reconciliations between GAAP and GFS measures of key fiscal aggregates and explanations of differences between GAAP and GFS.
3. <u>Option</u>: Where an accounting standard allows optional treatments, AASB 1049 mandates that governments shall apply only those treatments that align with GFS guidelines.

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[25] The accounting standards applicable to Australian public sector entities are full accrual standards, which are, in substance, the same as IPSASs. Their similarity to IPSASs arises from the Australian convergence with IFRSs, with public sector-specific differences that generally align with IPSAS differences.

Choice of Accounting Policy Options to Reduce Differences

5.29. A number of current IPSASs include accounting policy options that, if selected, would, help to reduce the differences between financial statement data and GFS reporting needs. For example, IPSAS 17 allows recognition of heritage assets, and if entities choose this option, then their reporting will be aligned with GFS reporting guidelines as it applies to heritage asset recognition. However this potential benefit is not identified in any of those individual standards, nor is there either (a) a requirement, or (b) encouragement to select aligned options when choosing accounting policies within IPSAS 3, *Accounting Policies, Changes of Accounting Estimates and Errors*.

5.30. As explained in Section 4 above, in order to meet GPFRs' objectives and qualitative characteristics preparers must choose accounting policies with the aim of achieving faithful representation of the reporting entity's finances. Within these constraints, preparers can improve the support that financial statement data provides for statistical reporting (and reduce the need to collect extra data), by adopting accounting policies for their financial statements that meet both IPSAS and GFS reporting requirements. Guidance that highlights the accounting policy choices that would support entities' use of IPSAS data as the basis for their GFS reports could be provided in the IPSASB's Study 14. Study 14 aims to help public sector entities to migrate to the accrual basis of accounting, in accordance with IPSASs. It includes a chapter on IPSAS 22, which provides a brief overview of IPSAS 22's contents. Study 14 could be revised to include an additional chapter that describes (a) the benefits of being able to use an entity's financial reporting data as the basis for GFS reports, (b) IPSAS options that support GFS reporting needs; and, (c) guidance on CoA design that would facilitate generation of GFS data, as discussed in Section 4.

5.31. If IPSAS 22 is revised (Option A above), then it could also potentially include "application guidance" on the selection of IPSAS options that support GFS reporting needs. Such guidance would need to link to the main body of IPSAS 22. (Alternatively, advice could be provided through "implementation guidance," which would not form part of IPSAS 22, but would still require an amendment to IPSAS 22.) An argument against providing such guidance in IPSAS 22 is that it would not fit with its existing focus as a disclosure standard.

5.32. The IPSASB is also developing an IPSAS to address the first-time adoption of IPSASs. The objective of that IPSAS is to provide a suitable starting point for accounting in accordance with accrual basis IPSASs. The first time adoption IPSAS is therefore not expected to include detailed guidance with respect to accounting policy options that support GFS reporting needs. However, it could refer to guidance in Study 14.

5.33. Based on the discussion above, the options are to (a) amend IPSAS 22 to highlight options that reduce differences with GFS reporting guidelines, (b) include coverage of such options in the standard on first time adoption of IPSASs, (c) include guidance on options in Study 14, or (d) a combination of two or more of (a) through (c).

5.34. The IPSASB's view is that the best approach is option (c), which is to include guidance in Study 14. This is primarily because the issue is one of guidance rather than a new requirement. Therefore it is more appropriate to address the issue in Study 14 rather than in either IPSAS 22 or the IPSAS on first time adoption. Inclusion of guidance in Study 14 does not preclude the provision of narrative that draws attention to that guidance in IPSAS 22 and/or the first time adoption IPSAS. This means that the benefit of higher visibility, expected from including coverage in an IPSAS, would be gained, while keeping an appropriate distinction between requirements in IPSASs and guidance in Study 14. Furthermore, there should not be any impression conveyed that choice of GFS aligned options overrides other considerations when choosing accounting policies. Including such guidance in

Study 14 better safeguards against such an unintended impression while also providing more scope to (a) describe other policy choice considerations, and (b) provide a wider set of guidance on what is involved in using IPSAS data as a basis for GFS reporting, while keeping these different considerations together in one place.

Preliminary View 1 (*See paragraphs 5.29 to 5.34*)

The IPSASB should amend Study 14, *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities,* to include a chapter on IPSAS options that reduce differences with GFS reporting guidelines.

6. Opportunities to Reduce Differences: GFS Reporting Guidelines

Introduction

6.1 The IPSASB has been working with the statistical community to appropriately support GFS reporting and resolve differences since the early 2000s. The 2008 SNA notes that:

> …during the 2008 [SNA] revision consultation of IASB standards and their counterpart for public sector accounting standards (the IPSASB) has been extremely beneficial.

6.2 The changes described in this section are provided in this context for consideration by the statistical community. They focus primarily on opportunities to reduce differences that would impact on GFS reporting guidelines, rather than the SNA itself. The SNA and SNA supplementary guidelines are both relatively static compared to accounting standards, because stable requirements for statistics support consistent, long-time data series and trend information. However there appears to be more scope for change in the supplementary guidelines than at the SNA level.

6.3 Those responsible for statistical reporting guidelines include the IMF and the European Commission's Eurostat. National governments either apply these guidelines (for example European Union Members must apply the ESA), or may use the guidelines as an important and authoritative basis for their nationally developed GFS requirements.

Use of Accounting Data for GFS Reporting

6.4 Significant benefits are derived from using accounting data, generated by accruals information systems used to prepare audited financial statements, to construct GFS reports. As a general principle, preparers of GFS reports should start with a presumption that accounting data will be used. GFS report preparers should only consider alternative sources of data, and alternative measurement approaches if the financial reporting data has clearly failed to address GFS issues.

6.5 In practice, preparers of statistical reports may choose to use other "better" data from a source other than their accounting information system, simply because that is what they have always used, or it is produced in-house, and is familiar to them. Statisticians responsible for preparing GFS reports may, for example, prefer a measurement approach that uses indexation to derive a current value from the historic cost of PP&E. This issue is not confined to, but appears to be most common in, the area of reporting on PP&E.

6.6 This type of difference, arising from preferred practices rather than standards and guidance, could be resolved through (a) developing more detailed guidance, and (b) identifying procedures that governments can apply to reach clarity and agreement between accountants and statisticians on best practice on reporting issues. For example, agreement on those sources of valuation guidance that are authoritative, for application when the best approach is unclear, could help to ensure that issues are resolved efficiently. This would then allow GFS needs for, for example, PP&E information to be met fully through financial accounting information systems.

Measurement of Assets, Liabilities, and Net Assets/Equity (Issue C1)

6.7 As stated above, the 2008 SNA has a comprehensive requirement for current values (current market price). IPSASs have moved many areas in accounting onto fair value measurement, as either a requirement or an acceptable alternative. This CP treats any remaining differences, for example the inventory measurement difference described in Section 5 above, as requiring standard-setting action by the IPSASB rather than through a change to the 2008 SNA. However scope remains for GFS reporting guidelines to address differences in the approaches that governments take to determining current value measurements.

6.8 For example, governments that have (a) adopted IPSAS 17 and IPSAS 31, and (b) applied the fair value measurement option and heritage asset recognition option in these standards, should be able to use the data in their accounting information systems to generate GFS information on their intangible assets and PP&E. But GFS reporting guidelines at a detailed level may differ from the suggested approach to fair value in IPSAS 17 and IPSAS 31. It may also differ from the detailed valuation information to which accountants refer, for example the valuation guidance produced by the IVSC. Three areas of particular concern are the valuation of

(a) Assets for which there is no active and liquid market;

(b) Heritage assets; and

(c) Long-lived, specialized assets, for which market prices are unavailable, including some defense assets, and infrastructure assets (roads, flood control systems, water supply systems, etc.).

6.9 As stated in Section 5, the IPSASB considers that discussions between the IPSASB, the IVSC, and representatives of the statistical community should occur, to develop a comprehensive, agreed-upon description of IPSAS/SNA valuation differences, their significance, and scope to address them. The results of those discussions could then be considered by both the IPSASB and the statistical community, for any implications for IPSASs and GFS reporting guidelines.

Extractive Industries Exploration and Evaluation; Development and Production (Issue C2)

6.10 Statistical accounting treatment for reporting on extractive industries is not entirely clear, and may deviate from that in the applicable accounting standards, IFRS 6, *Exploration for and Evaluation of Mineral Resources* and IPSAS 29, *Financial Instruments: Recognition and Measurement*. The GFSM 2012 appears likely to clarify the treatment, based on 2008 SNA treatment of contract leases and licenses, by applying the accounting approach to explain what should be done specifically to give effect to the SNA requirement.

Decommissioning/Restoration Costs (Issue C3)

6.11 2008 SNA includes decommissioning/restoration costs as costs incurred on acquisition and disposal of assets. The GFSM 2012 appears likely to include guidance, consistent with the 2008 SNA and IPSASs' coverage of acquisition and disposal of assets, particularly IPSAS 17's requirements with respect to PP&E. Differences in this area are expected to be removed if revisions to GFS reporting guidelines to reflect the 2008 SNA treatment, include supporting detail consistent with IPSAS 17.[26]

Public-Private Partnerships, Service Concession Arrangements, and IPSAS 32 (Issue C4)

6.12 The 2008 SNA clarified the SNA treatment of Public-Private-Partnerships (PPPs), including build-own-operate-transfer schemes (BOOT schemes) by governments, but left the approach quite open.

[26] A difference will continue in the treatment of some other provisions, where statistical guidelines do not require recognition but IPSAS does, which will need to be managed. It is therefore included as Issue D5 in Table 2, in Section 3 above, with further discussion in Section 6 below.

2008 SNA states that the guidance is illustrative rather than prescriptive. Further development awaited issuance of IASB and IPSASB standards.

6.13 In 2011, the IPSASB issued IPSAS 32, *Service Concession Arrangements*: Grantor, which includes accounting treatment for both PPPs and what the ESA/SNA call “SCAs.” The IPSAS 32 approach (a) focuses on control, (b) addresses SCA accounting from the government’s (the grantor’s) perspective, and (c) is consistent with the IFRS approach that applies to grantees (the business operator receiving concessions from government).

6.14 ESA guidance on the treatment of service concession arrangements where the majority of revenue comes from third parties usually results in all assets ending up with the operator, which for PPPs (where the government pays) the related risks and rewards must be analyzed. Both treatments are different from the approach taken in IPSAS 32 and the related IFRS requirements. There is no worldwide agreement among statisticians on the treatment of PPPs and SCAs, and 2008 SNA is non-prescriptive. The 2008 SNA has this issue on its research agenda. The timing is unknown.

Subscriptions to International Organizations (Issue C5)

6.15 “Subscriptions,” within the context of international organizations’ funding, cover a variety of different types of funding, including the United Nations System’s “assessed contributions” and “voluntary contributions.” Assessed contributions are amounts equal to a proportion of an approved (annual or biennial) budget, which may be fully paid prior to the start of the budget period, paid in tranches over the budget period, or paid in arrears. Voluntary contributions can take many different forms, including (a) simple pledges, (b) complex funding agreements where payment is conditional on service delivery, and (c) concessionary loan type arrangements.

6.16 IPSASs do not yet specify the treatment of different types of subscriptions. Determining an accounting treatment requires reference to IPSAS concepts of assets and expenses, and application of different IPSASs, to the extent that the particular type of subscription appears to fall into transfers described within those standards.

6.17 The 2008 SNA guidelines indicate that transactions with international and supranational organizations for membership dues and subscription fees payable to international organizations should not be treated as transfers, but as payments for a service, which are recorded on an accrual basis. Exceptionally, and when there is a possibility (even if unlikely), of repayment of the full amount, the payment may be represented as a financial asset.

6.18 Eurostat has developed guidance on subscriptions to multilateral development banks in its *Manual on Government Deficit and Debt*. The guidance records as expenditure all those subscriptions to banks’ loan facilities that make concessionary lending. Guidance in the updated GFSM will clarify that, depending on their nature, subscriptions to international organizations could give rise to expenses or a financial asset.

Costs Associated with Intangible Assets, Including Research and Development Costs (Issue C6)

6.19 The IPSAS and the 2008 SNA treatments for costs associated with research and development (R&D) costs, appear now to be generally aligned. The recommendation that R&D providing an economic benefit should be recognized as an asset has been met. This is in spite of the 2008 SNA treating R&D as a single category, with rules about asset recognition (when future economic benefits exist—see SNA 10.103) applying to R&D as a whole. IPSAS 31 divides R&D into "research" and "development," defining each category, then specifying asset recognition for each category, with "research" costs always expensed. The definitional difference cannot be resolved.

6.20 Furthermore, the 2008 SNA does not provide the same level of guidance on internally generated intangible assets as does IPSAS 31, with the result that there may be differences in practice. A gap in SNA's detail with respect to capitalization appears, in practice, to allow capitalization of costs related to some internally generated intangible assets that IPSAS 31 does not capitalize. However, there may be scope for the statistical community to include further guidance, aligned with the IPSAS 31 treatment, on when costs associated with R&D and internally generated intangibles should be either capitalized or expensed.

Low-Interest and Interest-Free Loans (Issue C7)

6.21 The SNA and IPSAS approaches to measurement of low-interest and interest-free loans are now aligned. An IPSAS to address non-exchange revenue, IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* has been issued. IPSAS 23 and IPSAS 29 deal with concessionary loans. The entity needs to assess whether an arrangement is an exchange or non-exchange transaction. Normal impairment applies. The 2008 SNA, (paragraph 22.123-22.124) defines concessionary terms, and states that concessionary interest rates to a foreign government could be seen as providing a transfer equal to the difference between the actual interest and the market equivalent interest. If such a transfer is recognized, it is usually recorded as current international cooperation. The interest recorded would be adjusted by the same amount.

6.22 A difference remains with respect to where the measured amounts are reported. Under SNA information on concessionary debt is shown in supplementary tables. IPSAS includes this information within amounts reported on the face of financial statements, impacting on aggregates such as total assets, net assets/equity, and (for value changes) the operating result.

6.23 The treatment of concessionary loans is on the research agenda of the SNA, and Eurostat is also trying to resolve this issue. In the interim, the difference can be managed through transfer of amounts captured through an IPSAS information system into SNA supplementary tables.

Appendix A: Background on IPSASs and Public Sector GFS Reporting Guidelines

Statistical Bases for Reporting Financial Information

A1. The overarching model for macroeconomic statistics is the System of National Accounts (SNA). The SNA is a framework for a systematic and detailed description of the national economy and its components, including the general government sector, and its relations with other economies. It is under the joint responsibility of the United Nations, the IMF, the Commission of the European Communities, the OECD, and the World Bank. The latest version of the SNA, the 2008 SNA, was issued in 2008. The 2008 SNA updated the SNA 1993, to address issues brought about by changes in the economic environment, advances in methodological research, and users' needs.

A2. Other internationally recognized macroeconomic statistical bases are harmonized with the SNA to the extent consistent with their objectives. The European Union's legislated rules for national accounts, the European System of Accounts (ESA), aim to be consistent with the SNA in definitions, accounting rules, and classifications. The ESA includes certain differences, mainly presentational, that reflect European Union statistical requirements. The current version of the ESA is the ESA 95, which is consistent with the SNA 1993. The ESA is undergoing an update. In December 2010, the European Commission presented a proposal for the updated ESA, ESA 2010. That proposal is now subject to discussions at the European Council and European Parliament. It is expected that agreement, with adoption and publication of ESA 2010, will be reached later in 2012. ESA 2010 would then be applied by governments from 2014.

A3. ESA 95 is complemented by the ESA 95, *Manual on Government Deficit and Debt* (MGDD), which has been prepared to aid in applying the ESA 95 (the conceptual reference framework) for calculating government deficit and debt statistics. This MGDD is regularly updated.

A4. For non-EU government finance statistics, the key source of guidance is the IMF's *Government Finance Statistics Manual* (GFSM). Although the GFSM focuses on the general government sector, its guidelines apply equally to corporations in the public sector.

A5. The latest version of the GFSM, which was issued in 2001 (GFSM 2001), is harmonized with the SNA 1993. A revision of the GFSM is in progress, with the revised GFSM expected to be issued later in 2012. The revised GFSM (GFSM 2012) will be harmonized with the 2008 SNA. It will also incorporate changes to GFS designed to address IPSAS convergence recommendations included in the 2005 Research Report.

International Public Sector Accounting Standards

A6. International Public Sector Accounting Standards (IPSASs) apply to general purpose financial reports (GPFRs) of public sector entities (other than Government Business Enterprises (GBEs)), which include general purpose financial statements. GPFRs are prepared to achieve the objectives of GPFRs, which are to provide information about the entity that is useful to users for accountability and decision-making purposes.

A7. IPSASs are issued by the International Public Sector Accounting Standards Board (the IPSASB) for application by governments and other public sector entities (other than GBEs). International Financial Reporting Standards (IFRSs) are issued by the International Accounting Standards Board (IASB) for application by profit-oriented entities. The standards issued by the IPSASB and the IASB represent the international accounting model for financial reporting, sometimes referred to as international Generally Accepted Accounting Principles (GAAP). In many countries, national standard setters and other authoritative bodies have developed authoritative requirements that form national accounting reporting bases, or national GAAP. Currently, there is significant activity to converge national and international accounting reporting bases for both the public and private sectors.

A8. As of September 30, 2012, the IPSASB had issued 32 IPSASs for application when the accrual basis of financial reporting is adopted. (See Box 1: List of IPSASs.) The IPSASs are based on IFRSs to the extent that IFRS requirements apply to the public sector. A comprehensive cash basis IPSAS has also been issued.

Box 1: LIST OF IPSASs

This list shows IPSASs available as of September 2012. For a current list of IPSASs and the standards themselves, see the IFAC website at http://www.ifac.org/. The standards are found under "Publications and Resources," at http://www.ifac.org/public-sector/publications-resources. They can be downloaded (for free) from that section.

IPSAS 1—Presentation of Financial Statements IPSAS 2—Cash Flow Statements IPSAS 3—Accounting Policies, Changes in Accounting Estimates and Errors IPSAS 4—The Effects of Changes in Foreign Exchange Rates IPSAS 5—Borrowing Costs IPSAS 6—Consolidated and Separate Financial Statements IPSAS 7—Investments in Associates IPSAS 8—Interests in Joint Ventures IPSAS 9—Revenue from Exchange Transactions IPSAS 10—Financial Reporting in Hyperinflationary Economies IPSAS 11—Construction Contracts IPSAS 12—Inventories IPSAS 13—Leases IPSAS 14—Events After the Reporting Date IPSAS 15—Financial Instruments: Disclosure and Presentation (*To be withdrawn*) IPSAS 16—Investment Property IPSAS 17—Property, Plant and Equipment	IPSAS 18—Segment Reporting IPSAS 19—Provisions, Contingent Liabilities and Contingent Assets IPSAS 20—Related Party Disclosures IPSAS 21—Impairment of Non-Cash-Generating Assets IPSAS 22—Disclosure of Financial Information about the General Government Sector IPSAS 23—Revenue from Non-Exchange Transactions (Taxes and Transfers) IPSAS 24—Presentation of Budget Information in Financial Statements IPSAS 25—Employee Benefits IPSAS 26—Impairment of Cash-Generating Assets IPSAS 27—Agriculture IPSAS 28—Financial Instruments: Presentation IPSAS 29—Financial Instruments: Recognition and Measurement IPSAS 30—Financial Instruments: Disclosures IPSAS 31—Intangible Assets IPSAS 32—Service Concession Arrangements: Grantor

Task Force on Harmonization of Public Sector Accounting

A9. Work on IPSAS statistical accounting convergence formally began in 2003. That convergence initiative was prompted by (a) recognition that there were convergence opportunities in the SNA revisions that led to the 2008 SNA, (b) calls for greater convergence from national governments using accrual basis financial reporting who wanted to achieve reporting efficiencies, and (c) views that improved convergence between the two accounting bases would support their mutual understandability to the benefit of users of both financial and statistical reports.

A10. The Task Force on Harmonization of Public Sector Accounting (TFHPSA) was established in late 2003. The TFHPSA's purpose was to examine ways to minimize unnecessary differences between accounting and statistical bases of financial reporting. Its mandate included making recommendations to the IPSASB, the IMF, and groups responsible for input into SNA revisions. An SNA revision was then in progress, with scope to include revisions that would improve convergence with financial accounting. Changes to the 1993 SNA culminated in issuance of the 2008 SNA. The IPSASB work program and ongoing IPSAS developments also provided scope for IPSASs to converge with statistical accounting guidelines.

A11. As stated in Section 1, the 2005 Research Report, prepared by the TFHPSA, comprehensively documented similarities and differences between the two reporting frameworks. The report also recommended specific convergence activities that could be undertaken by the key groups, including the IPSASB, Eurostat, and the IMF. The 2005 Research Report recommended that the PSC (now the IPSASB) undertake:

(a) Development of an IPSAS that (i) allows or encourages disclosure of information about the general government sector (GGS) (as defined in statistical bases of financial reporting) in whole of government financial statements, (ii) specifies rules when a government elects to make such disclosures, and (iii) acknowledges that other sectors may also be disclosed in a manner similar to the GGS information;

(b) A long-term project on reporting financial performance that would split the comprehensive result into two components, aligned as far as possible with the split between transactions and other economic flows adopted in statistical bases of financial reporting; and

(c) IPSASs or revisions to existing IPSASs that require or allow increased use of current values in IPSASs.

A12. With respect to IPSAS options, the report acknowledged that inclusion of an option consistent with statistical accounting meant that convergence had been achieved, but also recommended that the IPSASB consider removing non-converged options. With respect to IFRS convergence, the report noted that the SNA encompasses both the public and private sectors, which means that it compiles statistics about transactions and events in both sectors. On that basis, the report encouraged the IPSASB to continue to consider IFRSs when developing IPSASs, and to depart from IFRSs only when a public sector-specific reason to do so exists.

A13. In the seven years since the 2005 report was issued, significant progress has been made in addressing the differences identified. In particular, IPSAS and SNA/ESA developments have addressed many of the convergence recommendations in the 2005 report. Appendix B provides an overview of progress made, and identifies issues on which further work remains. At the same time, as progress has occurred on differences, other developments have (a) identified new ways to manage differences, (b) placed greater emphasis on IPSASs as the primary focus for alignment (rather than accrual reporting standards generally), and (c) increased the importance of timely, high-quality production of data for both financial accounting and GFS reporting.

IPSASB Developments Since 2005

IPSAS 22, Disclosure of Financial Information about the General Government Sector

A14. As noted above, the 2005 Research Report recommended that the IPSASB develop an IPSAS that would allow or encourage disclosure of information about the general government sector (GGS). In response to that recommendation, the IPSASB developed IPSAS 22, *Disclosure of Financial Information About the General Government Sector* (IPSAS 22), issued in December 2006.

A15. IPSAS 22 established requirements for those governments that elect to disclose information about the GGS. The disclosures required by IPSAS 22 are intended to provide a useful bridge to the statistical bases of reporting. IPSAS 22's objective is to

"…prescribe disclosure requirements for governments which elect to present information about the general government sector (GGS) in their consolidated financial statements. The disclosure of appropriate information about the GGS of a government can enhance the transparency of financial reports, and provide for a better understanding of the relationship between the market and nonmarket activities of the government and between financial statements and statistical bases of financial reporting." [paragraph 1, IPSAS 22]

A16. IPSAS 22 is applied in respect of a government's consolidated financial statements. Information disclosed in accordance with IPSAS 22 disaggregates those consolidated financial statements according to the GGS boundaries, as specified in statistical bases of financial reporting. IPSAS 22 does not permit reporting entities to consolidate information about entities that are not subject to common control, as statistical information about government finances published by a statistical agency would.

A17. IPSAS 22 requires entities electing to make GGS disclosures to apply all IPSASs to those disclosures except IPSAS 6, *Consolidated and Separate Financial Statements*. Statistical bases of financial reporting use consolidation rules that differ from those in IPSAS 6; applying IPSAS 6 would not enable comparison of financial statement information with GGS information. IPSAS 22 requires a different treatment of investments in the public corporations sector than is normally required by IPSASs. IPSAS 6 requires full consolidation of all entities; however, IPSAS 22 requires the public financial corporation sector and the public nonfinancial corporation sector to be presented as investments of the general government sector. IPSAS first applied to annual periods beginning on or after January 1, 2008, but earlier application was encouraged.

New IPSASs and IFRS Convergence

A18. From 2005 to 2010, the IPSASB issued new IPSASs on non-exchange revenue, employee benefits, financial instruments (presentation, recognition, measurement, and disclosures), agriculture, and, intangible assets. These IPSASs supported convergence with statistical accounting by clearly establishing IPSAS requirements for these topics and, where appropriate, including disclosure requirements that support statistical accounting needs. The majority of these standards were developed on an IFRS-convergence basis.

A19. The 2005 Research Report emphasized the importance of IPSASs continuing to be developed on an IFRS convergence basis:

"…the 1993 SNA encompasses the private and the public sectors and needs to deal with, and compile statistics about, transactions and events that arise in both sectors. Consistent with this, the IPSASB is encouraged to continue to consider IFRSs when developing IPSASs and to only depart from those IFRSs when there is a public sector-specific reason to do so. This will ensure that the same transactions and other events are accounted for in the same way by public and private sector entities that adopt the accrual basis of reporting, unless there is good reason for a difference."

A20. To facilitate its IFRS convergence strategy, the IPSASB developed an explicit policy to guide its IFRS convergence. The IPSASB's *Process for Reviewing and Modifying IASB Documents* (often called its "Rules of the Road"), was issued in October 2008. The policy sets out parameters for key decisions when considering IASB documents for convergence, including how to identify issues that warrant public sector-specific projects or differences. The "Rules of the Road" takes GFS reporting guidelines into account, but a different statistical accounting treatment on its own is not considered to be sufficient reason to depart from an IFRS requirement. The statistical accounting difference must be accompanied by other public sector-specific considerations to justify an IFRS departure. IPSASs also have "Annual Improvements," which keep IPSASs aligned with IFRS revisions made through the IASB's Annual Improvements Program.

IPSASB's Conceptual Framework Project

A21. The IPSASB's Conceptual Framework Project was initiated in 2006. The project aims to make explicit the concepts that are to be applied in developing IPSASs and other documents that provide guidance on information included in GPFRs. The IPSASB considers the concepts underlying statistical financial reporting models, and the potential for convergence with them, in developing its Conceptual Framework. The project considers fundamental issues related to financial performance, element recognition, measurement, and presentation.

A22. The Conceptual Framework Project is being developed in phases. The components of the Conceptual Framework have been grouped as follows, and are being considered in the following sequence:

Phase 1	The scope of financial reporting, the objectives of financial reporting and users of GPFRs, the qualitative characteristics (QCs) of information included in GPFRs, and the reporting entity;
Phase 2	The definition and recognition of the "elements" of financial statements;
Phase 3	Consideration of the measurement basis (or bases) that may validly be adopted for the elements that are recognized in the financial statements; and
Phase 4	Consideration of the concepts that should be adopted in deciding how to present financial and nonfinancial information in GPFRs.

A23. As of September 2012, the IPSASB had made a number of preliminary decisions. Preliminary decisions include that:

- GPFRs for public sector entities include, but are more comprehensive than, the financial statements currently dealt with in IPSASs;
- The objectives of financial reporting are to provide information about the entity useful to users of GPFRs for accountability and decision-making purposes;

- Public sector GPFRs are developed primarily to respond to the information needs of service recipients and their representatives, and resource providers and their representatives.

The IPSASB's Conceptual Framework is expected to be completed in 2014.

Statistical Accounting Developments Since 2005

SNA Revisions

A24. As explained in Section 1, a revised version of the SNA revision was issued in 2008. The 2008 SNA replaced the 1993 SNA. The 2008 SNA has addressed some of the issues identified in the 2005 Research Report. As a consequence of the SNA revision, revisions to the ESA and the GFSM are in progress.

ESA Revisions

A25. The ESA update (to result in the ESA 2010) will align the ESA with the 2008 SNA. In December 2010, the European Commission presented a proposal for the updated ESA (ESA 2010). That proposal is now subject to discussions at the European Council and European Parliament. It is expected that agreement, with adoption and publication of ESA 2010, will be reached in 2012. ESA 2010 would then be applied for statistical reporting on governments and other sectors of the economy from 2014. The MGDD is regularly updated. Revisions address alignment issues where possible.

GFSM Revisions

A26. Revisions to the GFS Manual (GFSM 2001) are in progress. The revisions will align the GFSM with the 2008 SNA. There is also some scope, in the revised GFSM, to clarify that the GFS treatment should be the same as the IPSAS treatment. The first draft of the revised GFSM is expected to be issued in 2012 for public comment.

Appendix B: Differences between IPSASs and GFS Reporting Guidelines—Progress and Current Status

Issue	Progress since 2005, and Status as of September 2012
A) Issue resolved	
A1. Sector reporting IPSAS 6, IPSAS 22	**Progress:** IPSAS 22 (a) encourages disclosure of information about the general government sector, (b) specifies rules when a government elects to make such disclosures, and (c) requires a government's investment in public corporations to be recognized at the carrying amount of investees' net assets. **Status**: The recommendation for reconciliation through disclosure has been met. Further information: The conceptual difference between how the reporting entity is defined for statistics and for IPSAS will remain. (Also see B1 and D1, where further scope to reduce differences in this area and ways to manage this issue are described.)
A2. Investments in unquoted shares – measurement IPSAS 29, SNA 13.70-13.71	**Progress:** IPSAS 29 requires fair value where there is a reliable measure, otherwise cost. In practice, fair value is used in the majority of cases. The 2008 SNA adopts a "current market price" hierarchy across all assets. So, the two treatments are broadly consistent. **Status**: The measurement issue has been resolved. Further information: The issue of where losses and gains should be reported (i.e., in which financial statement) is unresolved. It is included within the broad issue related to financial statement presentation differences under "Category D Issues to Manage." The specific issue related to reporting of income is included under Category B Resolution Possible—IPSAS.
A3. Employee stock options IFRS 2, SNA 11.125, Chapter 17	**Progress:** SNA changes have addressed the differences. 2008 SNA, (paragraph 11.125) clarified employee stock options. Chapter 17 now provides guidance on valuation and recognition. So there is no difference between IPSASs and the SNA. (Note that IFRS 2 is the authoritative pronouncement, applying the IPSAS hierarchy.) **Status**: Issue resolved. No remaining differences.

Issue	Progress since 2005, and Status as of September 2012
A4. Non cash-generating assets, including heritage assets - measurement and recognition IPSAS 17, IPSAS 31, and SNA 3.43, 13.16-13.25	**Progress:** SNA work to align guidance on the valuation of non cash-generating assets, including heritage assets, has resolved this issue. If entities choose to use the revaluation options in IPSAS 17 and IPSAS 31, then their measurement of PP&E will be aligned with statistical accounting's use of current market price. With respect to heritage assets, statistical reporting recognizes heritage assets, while IPSAS makes recognition optional. When entities apply the IPSAS 17 and IPSAS 31 options to recognize heritage assets, their IPSAS treatment is aligned with statistical reporting. Therefore, alignment at the level of authoritative pronouncements is confirmed, conditional on use of the appropriate options in IPSAS. **Status:** Issue resolved. No remaining differences. <u>Further information:</u> Despite alignment at the level of standards and formal guidelines, measurement differences may still arise in practice when there is not an active and liquid market for the valuation of these types of assets. The SNA/GFS approach to establishing current value when it is difficult to use a market price due to an absence of market transactions for assets may differ from the IPSAS 17's suggested approach. The same issue also applies to the measurement of heritage assets. This issue is included in Categories B and C below. The statistical community's approach to sampling and the use of estimates can be a further area of measurement difference.
A5. Borrowing costs IPSAS 5, SNA 7.113 -7.126	**Progress:** IPSAS 5, *Borrowing Costs,* has the SNA approach of expensing borrowing costs as its "benchmark treatment," but allows capitalization of costs as an acceptable alternative treatment for costs related to certain assets. Entities can address this difference by choosing to apply the IPSAS 5 option to expense all borrowing costs. Therefore, alignment is confirmed, conditional on use of the appropriate option in IPSAS 5. **Status**: Issue resolved. No remaining differences. <u>Further work possible:</u> Monitor developments with respect to IPSAS 5, *Borrowing Costs*, to ensure that the "expense" option either remains or becomes the benchmark treatment. Include "expense" option in proposed IPSAS 22 application guidance on SNA consistent options within IPSAS.)

Issue	Progress since 2005, and Status as of September 2012
A6. Defense weapons – capitalization and classification IPSAS 12, IPSAS 17, SNA 10.87, 10.144 and A3.55-58	**Progress:** SNA changes have met recommendations on capitalization and classification. The 2008 SNA (paragraphs 10.87, 10.144 and A3.55-58) recommends that military weapon systems be classified as fixed assets based on the same recognition criteria as for other fixed assets. The 2008 SNA also recognizes large defense weapons systems and weapons platforms as assets, measured at fair value. Missiles and explosive ordinance are treated as inventory. These changes will flow to the update of the GFSM. Measurement differences remain for long-lived, specialized assets, where statistical accounting tends to prefer an indexation approach, while financial accounting could use depreciated replacement cost (DRC), which is a reasonable market price surrogate, but for specialized items could be difficult to determine. These measurement differences are not specific to defense weapons and they are included as a general issue under Category D Issues to Manage. **Status**: Issue resolved. No remaining differences. Further work possible: There is scope to provide more guidance and clarification on (a) when defense weapons should be classified as PP&E, and when as inventory, (b) when defense items should be capitalized rather than expensed, and (c) how to value long-lived, specialized assets for which market prices are unavailable. (See Issues B5, B6, and C1 below.)
A7. Recognition and derecognition of financial instruments IPSAS 28, IPSAS 29, SNA 12.42, 22.122	**Progress:** IPSAS 29‘s recognition and derecognition requirements mirror those of IAS 39. IPSAS 28 adopted the requirements of the former IPSAS 15 as they relate to offsetting. The 2008 SNA requirements in respect of debt defeasance have not changed, but have been elaborated upon. The 2008 SNA deals specifically with debt assumption as a liability; however, if on transfer the acquirer also includes a claim against the debtor, then a financial asset is also recognized. The 2008 SNA treats debt forgiveness as government expenditure (a capital transfer) with the creditor's liability and the debtor's asset reduced by the amount forgiven. The IMF's Public Sector Debt Statistics Guide provides detailed clarifications on debt assumptions. **Status:** Issue resolved. No remaining differences.

Issue	Progress since 2005, and Status as of September 2012
A8. Costs associated with R&D and other intangible assets IPSAS 31, SNA 13.33, 13.36, and 10.98-10.117; para 4.52	**Progress:** The recommendation that R&D that provides an economic benefit be recognized as an asset has been met. The IPSASB issued IPSAS 31, *Intangible Assets*, which sets out recognition requirements covering R&D, software, and other intangible assets. The 2008 SNA revisions are intended to be aligned with the business accounting standard (IAS 38, *Intangible Assets*) with which IPSAS 31 is converged. As a result, the two accounting treatments should be aligned. But a gap in SNA's detail with respect to capitalization appears, in practice, to allow capitalization of costs that IPSAS 31 does not capitalize: *[?]* research costs, and costs related to some internally generated intangible assets. SNA treats R&D as a single category, with rules about asset recognition applying to R&D as a whole (SNA paragraph 10.103). IPSAS 31 divides R&D into "research" and "development," defining each category, then specifying asset recognition for each category, with "research" costs *always* expensed. SNA also does not provide the same level of guidance on internally generated intangible assets as does IPSAS 31, with the result that there may be differences in practice. **Status:** Issue resolved. At a standards level, SNA and IPSAS treatments are the same. Further work possible: There is scope to provide further guidance in the GFSM (for inclusion in the 2012 revised GFSM) to address the possibility of differences in practice. (See Issue C6 in Category C, Resolution Possible—GFS/ESA.) Developments should be monitored, because there is a risk that R&D treatment could go out of alignment. The risks are from (a) Eurostat Task Force consideration of capitalization of costs related to "blue sky" research, and, (b) the IPSASB's Conceptual Framework Project, where changes to the definition of an "asset" may mean movement away from the present IPSAS approach to R&D capitalization.
B) Opportunities to reduce differences: IPSASs	
B1. Reporting entity definition IPSAS 6, SNA 4.127-4.148	**Progress:** Statistical guidelines aim to report on the whole government or public sector, including the general government sector, the public corporations sector, and all their subsectors. The national accounts produced for statistics include financial information from all such entities within these sectors. By contrast, IPSAS reports on all entities controlled by the reporting government. For example, where lower levels of government (for example, local authorities, or state and provincial governments) are not controlled by the national government, those uncontrolled entities are not included in the government's financial report. Controlled nonresident activities could also be included in the consolidated report under IPSAS, but their activities are only included in national accounts under certain circumstances, for example, special purpose entities established abroad by governments. **Status:** Consider, as part of the IPSASs 6 – 8 revision project, whether there is scope to remove wording differences between the definition of "control" in IPSAS 6 and the SNA definition.

Issue	Progress since 2005, and Status as of September 2012
B2. Currency on issue/seigniorage GFSM 2010	**Progress:** The IPSASB has discussed development of guidance on this topic (treated as a public sector-specific financial instrument), but timing is unknown. **Status:** Consider whether topic-specific coverage could be developed as part of the IPSASB's public sector specific financial instruments project,
B3. Subscriptions to international organizations SNA para 22.100; GFSM 2010; 2010 proposal for MGDD. (MGDD chapter III)	**Progress:** The SNA treatment has moved to an accruals basis, which brings it closer to IPSAS generally. But IPSAS does not specify the treatment of different types of subscriptions. The 2008 SNA indicates that transactions with international and supranational organizations, including membership dues and subscription fees payable to international organizations, may not be treated as transfers but as payments for a service, recorded on an accrual basis. Exceptionally, and when there is a possibility (even if unlikely), of repayment of the full amount, the payment may be represented as a financial asset. Similar guidance in the updated GFS will clarify that, depending on their nature, "subscriptions" to international organizations could give rise to expenses. **Status:** Consider whether topic-specific coverage could be developed as part of the IPSASB's project on public sector-specific financial instruments. Eurostat has published guidance on one type of subscription in Chapter 5 of its manual on Government Deficit and Debt. The guidance records as expenditure all subscriptions to facilities of international organizations that provide concessionary loans.
B4. Inventory measurement IPSAS 12, SNA 10.118 – 10.148	**Progress:** IPSAS and SNA remain different. SNA requires current values (current market prices wherever possible). IPSAS 12, *Inventories,* generally requires measurement at "the lower of cost and net realizable value," except in certain circumstances where it is the lower of cost and current replacement cost. **Status:** Consider whether there is scope to address this difference.
B5. Defense weapons – capitalization and classification IPSAS 12, IPSAS 17, SNA 10.87, 10.144 and A3.55-58	**Progress:** As stated above, SNA changes have met recommendations on capitalization and classification, but there is scope to provide more guidance in this area. **Status**: Issue resolved. No remaining differences. Further work possible: There is scope to provide more guidance and clarification on (a) when defense weapons should be classified as PP&E, and when as inventory, (b) when defense items should be capitalized rather than expensed, and, (c) how to value long-lived, specialized assets for which market prices are unavailable. Consider whether development of guidance for inclusion in IPSAS 17 could be included within the IPSASB's work program.

Issue	Progress since 2005, and Status as of September 2012
B6. Measurement of assets, liabilities and net assets/equity IPSAS 7, IPSAS 12, IPSAS 19, IPSAS 29, SNA 13.16-13.25	**Progress:** The gap between the SNA's comprehensive requirement for fair value and the IPSASs' mixture of fair value and historic cost has reduced. **Status:** There is scope to make progress with respect to current value measurement, by improving the consistency of approaches to current value measurement and the related guidance. Subject to development of the IPSASB Conceptual Framework, consider whether there may be scope to increase the use of current value measurement within IPSASs. Discussions on measurement between the IPSASB, the IVSC, and the statistical community representatives could improve the consistency of valuation and measurement guidance.
B7. Transaction costs: Costs of disposing of nonfinancial and financial assets	SNA expenses all asset costs related to financial assets, while IPSAS requires such costs to be expensed in some cases and capitalized in other cases. Subject to development of the IPSASB Conceptual Framework, consider whether there is scope to address differences.

Issue	Progress since 2005, and Status as of September 2012
B8. Financial statements: presentation (Including classification, and aggregates.) IPSAS 1, SNA chapter 18	**Progress:** To address the first type of presentation difference described below, an IPSAS project to split the comprehensive result into two components—aligned with the transactions/other economic flows distinction in the SNA—was recommended. But the IPSASB has not adopted a comprehensive income approach for presentation of performance. The 2008 SNA retains the distinction between transactions and other economic flows. To address the cash surplus/deficit example below, it was proposed that the improved IPSAS 2, *Cash Flow Statements,* provide an alternate GFS presentation, but that has not occurred. So differences are likely to remain. Financial statement presentation differences: *Statement location*: Presentation of reported amounts in different financial statements. For example, IPSAS and SNA present value changes due to remeasurement of investments in unquoted shares in different statements. *Aggregates in statements*: Presentation of aggregates that are either (a) defined differently, or (b) have no equivalent in the other reporting framework. (For example, IPSAS and GFS differ on the notion of "cash surplus/deficit" in the Statement of Cash Flows.) Differences in aggregates can also result from recognition or classification differences. For example, the GFSM includes expenditures in the cash flow statement that are not reported as cash flows under IPSAS. (For example, notional cash flows such as finance leases are included.) These differences change the overall aggregates reported. **Status:** Subject to development of the IPSASB Conceptual Framework, consider whether a project to review presentation changes that would reduce differences with GFS should be included in the IPSASB's work program. <u>Management of differences:</u> There is scope to manage these differences through mapping amounts from the IPSAS financial statements to the appropriate SNA statements.
B9. Investments in unquoted shares: Presentation of remeasurement gains/losses IPSAS 1, SNA 12.73 – 12.121	**Progress:** The measurement issue has been resolved. Differences exist with respect to where losses and gains should be reported (i.e., in which financial statement). **Status:** Subject to development of the IPSASB Conceptual Framework, this issue could be considered as part of the project proposed for B8. <u>Management of differences</u>: There is scope to manage these differences through mapping amounts from the IPSAS statements to the appropriate SNA statements.

Issue	Progress since 2005, and Status as of September 2012
C) Opportunities to reduce differences: GFS reporting guidelines	
C1. Measurement of assets, liabilities and net assets/equity IPSAS 7, IPSAS 12, IPSAS 19, IPSAS 29, SNA 13.16-13.25	**Progress:** The gap between the SNA's comprehensive requirement for fair value and the IPSASs' mixture of fair value and historic cost has reduced. **Status:** There is scope to make progress with respect to current value measurement by improving the consistency of approaches to current value measurement and the related guidance. Consider whether discussions could be initiated with key groups to improve measurement consistency, then address through guidance at the detailed level.
C2. Extractive industries exploration & evaluation; development & production IFRS 6 , IPSAS 29, SNA 10.106 -10.108; 13.49, 13.50	**Progress**: GFSM 2012 will clarify the treatment, based on the 2008 SNA treatment of contract leases and licenses. IFRS 6 applies, through the IPSAS hierarchy. IPSAS 29 requires recognition at fair value for forward sales arrangements. **Status:** Consider whether there is scope to clarify statistical guidance. For example, GFSM 2012 is expected to clarify some applicable treatment, based on the 2008 SNA treatment of contract leases and licenses.
C3. Decommissioning/ restoration costs IPSAS 17, SNA 10.51(f)	**Progress:** 2008 SNA (paragraphs 10.51-10.55) includes decommissioning/restoration costs as costs incurred on acquisition and disposal of assets. Such guidance will be included in the revised GFSM 2012. **Status:** Consider whether revisions to related guidelines to reflect the 2008 SNA with supporting detail consistent with IPSAS 17, could be done to further reduce differences.

Issue	Progress since 2005, and Status as of September 2012
C4. Public-private partnerships (PPPs) (e.g. BOOT schemes) IPSAS 32, SNA 22.154-22.163; A4.64	**Progress:** IPSAS has clarified its treatment, but the treatments (IPSAS and SNA) remain different. 2008 SNA (paragraph 22.154-22.163 clarified the treatment of PPPs in government, but left the approach quite open. SNA states that the guidance is illustrative rather than prescriptive and further development awaits issuance of standards being developed by the IASB and IPSASB. In 2011, the IPSASB issued an IPSAS dealing with "Service Concessions Arrangements" (SCAs), which include PPPs and also what the ESA/SNA call "SCAs." The IPSAS approach focuses on control. According to the ESA, (a) "SCAs" involve third party revenue, and (b) ESA treatment for "SCAs" (all assets usually end up with the operator) is different from PPP treatment, where PPP assets are classified on the basis of risks and rewards. **Status:** Consider whether there is scope to align with IPSAS 32, *Service Concession Arrangements: Grantor*.
C5. "Subscriptions" to international organizations GFSM 2010, SNA 22.100, proposal for MGDD. (MGDD chapter III)	**Progress:** IPSAS does not specify the treatment of different types of subscriptions. (See "B3" above for more detail.) **Status:** Eurostat has just completed guidance on subscriptions to Multilateral Development Banks in the most recent revisions to its manual on Government Deficit and Debt – see Chapter 5. If the IPSASB addresses this topic (see B3 above), the statistical reporting community could consider whether the approach developed, if different, could be adopted for statistical reporting guidelines.
C6. Costs associated with R&D and other intangible assets IPSAS 31, SNA 10.98-10.117, 13.33, 13.36, and A.4.52	**Progress:** The recommendation that R&D that provides an economic benefit be recognized as an asset has been met. (See Issue A8 above for further detail on progress.) A gap in SNA's detail with respect to capitalization appears, in practice, to allow capitalization of costs (research costs, and costs related to some internally generated intangible assets) that IPSAS 31 does not capitalize. Further information: SNA does not provide the same level of guidance on internally generated intangible assets, as does IPSAS 31, with the result that there may be differences in practice. (See Issue A8 above for further detail.) **Status**: Consider whether revisions to statistical guidance, for example further guidance in the GFSM 2012, could address some possible differences in practice. (See D12.)

Issue	Progress since 2005, and Status as of September 2012
C7. Low-interest and interest-free loans IPSAS 23, IPSAS 29, SNA 22.123-22.124, A4.44	**Progress:** The measurement of these loans is now aligned. An IPSAS to address non-exchange revenue, IPSAS 23, has been issued. IPSAS 23 and IPSAS 29 deal with concessionary loans. The entity needs to assess whether an arrangement is an exchange or non-exchange transaction. Normal impairment applies. 2008 SNA, (paragraph 22.123-22.124) defines concessionary terms and states that concessionary interest rates to a foreign government could be seen as providing a transfer equal to the difference between the actual interest and the market equivalent interest. If such a transfer is recognized, it is usually recorded as current international cooperation. The interest recorded would be adjusted by the same amount. But a difference remains with respect to where amounts are reported. The means of incorporating the impact on the SNA has not been developed and, until this is done, information on concessionary debt is shown in supplementary tables. IPSAS includes this information in the financial statements. **Status:** The treatment of concessionary loans is on the research agenda of the SNA, and Eurostat is trying to resolve this issue. Consider whether work in this area could reduce differences. This difference can be managed through transfer of amounts captured through an IPSAS information system into SNA supplemental tables.
D) Differences that will need to be managed through data collection	
D1. Reporting entity definition IPSAS 6, SNA 4.127-4.148	**Progress:** Statistical guidelines aim to report on the whole of the government or public sector, including the general government sector, the public corporations sector, and all their subsectors. The national accounts produced for statistics include financial information from all such entities within these sectors. By contrast, IPSAS reports on all entities controlled by the reporting government. (Further detail on this difference is provided under A1 above.) **Status:** The basic conceptual difference remains, and will need to be managed through identifying data that relates to the GGS.

Issue	Progress since 2005, and Status as of September 2012
D2. Recognition criteria	**Progress:** Significant progress has occurred on aligning IPSAS and SNA recognition criteria, as indicated for different specific issues in Category A above. **Status**: Differences remain, and will need to be managed. Further information: Generally speaking, IPSAS is likely to have recognized items that SNA either (a) does *not* recognize (for example, certain types of provisions), or (b) recognizes *later* than IPSAS, in subsequent reporting periods (for example, expenses related to nonperforming loans). Management of differences generally involves adjusting IPSAS values to reach an SNA result. Additional disclosures in IPSASs and/or CoA design can facilitate production of GFS reports from IPSAS data, by identifying those items for which adjustments will be needed.
D3. Measurement of assets, liabilities and net assets/equity (Fair value versus historic cost) IPSAS 7, IPSAS 12, IPSAS 19, IPSAS 29, SNA 13.16 – 13.25	**Progress:** The gap between the SNA's comprehensive requirement for current values (current market prices) and the IPSASs' mixture of fair value and historic cost has reduced. IPSAS 7, *Accounting for Investments in Associates*, requires fair value when an intention to sell an investment within 12 months exists. IPSAS 29, *Financial Instruments: Recognition and Measurement*, requires fair value on initial recognition, then allows fair value for financial assets through income (so long as designation criteria are met, which would normally be the case), and "held for sale" assets through equity. Financial liabilities can be measured at fair value. But IPSAS 12, *Inventories*, requires the lower of cost and net realizable value. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets,* retains the "best estimate" approach. IPSAS 29 states that assets held to maturity, loans, and receivables are valued at amortized cost. **Status:** Choice of fair value options within IPSASs, use of disclosed fair values (where IPSASs require such disclosures), or valuations specifically for statistical reporting are ways to manage these differences. Further information: This issue is also included in Category C Resolution Possible—GFS/ESA, and Category B Resolution Possible—IPSAS above.

Issue	**Progress since 2005, and Status as of September 2012**
D4. Financial statements: presentation (Including classification, and aggregates.) IPSAS 1, SNA chapter 18	**Progress:** To address the first type of presentation difference, described below, the 2005 Research Report recommended an IPSAS project to split the comprehensive result into two components—aligned with the transactions/other economic flows distinction in the SNA. But the IPSASB has not adopted a comprehensive income approach for presenting performance. The 2008 SNA retains the distinction between transactions and other economic flows. To address the cash surplus/deficit example below, it was proposed that the improved IPSAS 2, *Cash Flow Statements,* provide an alternate GFS presentation, but that has not occurred. So differences are likely to remain. Financial statement presentation differences: 1) *Statement location*: Presentation of reported amounts in different financial statements. For example, IPSAS and SNA present value changes due to remeasurement of investments in unquoted shares in difference statements.) 2) *Aggregates in statements*: Presentation of aggregates that are either (a) defined differently, or (b) have no equivalent in the other reporting framework. (For example, IPSAS and GFS differ on the notion of "cash surplus/deficit" in the Statement of Cash Flows.) Differences in aggregates can also be a consequence of recognition or classification differences. For example, the GFSM includes expenditures in the cash flow statement, which are not reported as cash flows under IPSAS. (For example, notional cash flows such as finance leases are included.) These differences change the overall aggregates reported. **Status:** Management of differences: There is scope to manage presentation differences through mapping amounts from the IPSAS financial statements to the appropriate SNA statements.
D5. Provisions arising from constructive obligations IPSAS 19, SNA 17.207-17.214	**Progress:** The gap between SNA and IPSASs was reduced when the 2008 SNA (paragraphs 17.207-17.214) introduced a three-way treatment of guarantees. One of the categories, standardized guarantees, is now treated similarly to non-life insurance, and provisions for claims recognized. In all other cases, constructive obligations are not recognized. Instead, some contingencies are recorded as memorandum items. IPSAS recognizes all constructive obligations that meet the recognition criteria (probable outflow that can be reliably measured). **Status:** Additional disclosures in IPSASs and/or CoA design facilitate adjustments of amounts for production of SNA reports.

Issue	Progress since 2005, and Status as of September 2012
D6. Prior period adjustments/back casting – correction of errors IPSAS 3, SNA 18.11-18.13	**Progress:** Statistics needs restatement of the time series (many past years). Financial statements generally only report comparatives for the previous year, and IPSAS previously only addressed restatement of one prior year. Progress has occurred through issuance of the improved IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, which requires restatement for as many prior periods as are reported. IPSAS 3 states that changes should be made to “the earliest period presented, and the other comparative amounts disclosed for each prior period presented.” Scope exists in IPSAS 3 to conclude that it is “impracticable” to apply a policy retrospectively. This may mean that, in practice, there could be a difference between IPSAS and statistical reporting. **Status:** Management of this issue is needed to provide the time series data. For example, the Australian approach for a change in accounting policy is that the change will be recognized following GAAP, with the statistical accountants then applying back casting through the time series to produce the national accounts.

Issue	Progress since 2005, and Status as of September 2012
D7. Nonperforming loans IPSAS 29, (SNA 11.130, 13.66	**Progress:** Progress has involved clarification of practices, but differences remain. Further information: Note that "loan" has a specific meaning for the SNA. A "loan" is a nonmarketable instrument, implying that it cannot be valued using current values. IPSAS 29 requires that loans and other receivables be assessed for impairment and, if evidence indicates impairment, a provision created, with the decrement in value going to revenue. Where the loans are measured at amortized cost, the loans are assessed at every reporting date for impairment. The impairment is calculated based on the present value of the estimated future cash flows, discounted using the original effective interest rate. Any impairment losses are either recognized as a direct reduction of the asset, or through the use of an allowance account. 2008 SNA (paragraph 11.130) recommends that when a loan is not performing, this should be disclosed as a memorandum item, rather than recognized, while paragraph 13.66 elaborates on identifying these. In practice, no provision will exist until both counterparties agree to debt relief (a mutually agreed write-off). Therefore, there is a difference in terms of (a) ongoing *valuation* prior to write-off; and (b) *timing* of write-offs. With respect to ongoing valuation, IPSASs show decreases over time, but SNA does not do this. With respect to the timing of a loan write-off, both treatments will have written off the loan and be equivalent at the SNA write-off point, i.e., when both parties mutually agree that the loan should be written off. But IPSAS could have already written off the loan earlier than this point, based on the loan recipient's assessment of the loan's worth. SNA has the principle of *symmetry* between loan recipient and lender, which means that equivalent amounts must be reported in their different statements, and the recipient/preparer *cannot* write off the loan until the lender acknowledges that the loan will not be repaid (and vice versa). A note to the accounts can be included to indicate a problem with the loan, but the loan cannot be written off in the recipient's books until the same thing happens in the lender's books. Because symmetry is fundamental to the SNA, the SNA treatment will not change. **Status:** Difference expected to remain, and will need to be managed.

Issue	Progress since 2005, and Status as of September 2012
D8. Biological assets (living animals and plants) IPSAS 27, SNA 10.11, 10.88-10.96, 10.139 - 140	**Progress:** The issuance of IPSAS 27, *Agriculture*, brought IPSAS closer to the 2008 SNA, and facilitated the production of statistical information from IPSAS information. Measurement and recognition differences that previously existed have been eliminated by changes in both the SNA and IPSAS, with no significant differences remaining. *Classification:* SNA and IPSAS both classify as fixed assets those biological assets used repeatedly or continuously to produce other products, such as fruit or dairy products. SNA classifies “animals and plants for one-time use, such as cattle raised for slaughter and trees grown for timber” as inventories rather than fixed assets (refer to SNA para 13.41). By contrast, IPSAS would classify these assets as fixed assets, until they are harvested/slaughtered, at which point they become “agricultural produce,” which is classified as inventory. An exception to the SNA inventory classification is where one-time use assets are produced for a reporting entity’s own use, or expected to be transferred to others who will then treat the assets as fixed assets. In that case, those assets are classified as gross fixed capital formation by a producing unit (refer to 10.140). **Status:** Classification difference expected to remain, and will need to be managed. To facilitate management of the classification difference above, IPSAS 27 requires disclosure of bearer and consumable biological assets in the notes to the statements (IPSAS 27 para 39), so that an entity can reclassify its consumable biological assets as inventory when preparing its statistical report.
D9. Net assets/equity SNA 11.83	**Progress:** 2008 SNA continues to treat equity as a liability. **Status:** Difference expected to remain, and will need to be managed.
D10. Contributions from owners, for commercial government operations IPSAS 1, 23, SNA 11.83-11.93	**Progress:** 2008 SNA paragraphs 11.83–11.93 elaborate about equity injections, and identify certain cases where equity injections should be treated as expenses, for example, equity injections provided to cover losses. IPSAS 1, *Presentation of Financial Statements*, and IPSAS 23, *Revenue from Non-Exchange Transactions*, deal with contributions from owners, including designation. IPSAS 23 identifies forms indicative of equity injections, but also establishes the principle that the substance rather than the form should be considered and, if the substance clearly shows that the transaction is something other than an equity injection, then the item should be recognized according to its substance (refer paragraph 37). IPSAS 23 does not deal with contributions from a restructuring. **Status:** IPSAS and SNA agree conceptually on capital injections. The application of IPSAS and GFS guidelines may, in practice, result in different conclusions about the substance of a transaction. Difference expected to remain, and will need to be managed.

Issue	**Progress since 2005, and Status as of September 2012**
D11. Transactions between the Central Bank and government entities.	Complexities in terms of (a) transactions between the Central Bank, the national government, and other government entities, and (b) a wider set of issues related to the Central Bank, will need to be identified and appropriately addressed.
D12. Costs associated with R&D and other intangible assets	Differences in terms of the definition of “research” cannot be resolved. To the extent that definitional differences flow through into recognition differences, these will need to be managed.

Appendix C: Useful Resources

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