

International Public Sector
Accounting Standards (IPSASs)
and Statistical Bases of Financial
Reporting: An Analysis of
Differences and
Recommendations for
Convergence



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International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 USA
<http://www.ifac.org>
Fax: +1 212-286-9570

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Views Expressed in this Research Report

The views expressed, and recommendations made, in this Research Report are those of the authors who developed the Matrix that is at the core of this Report and the other members of Working Group I (WGI) of the international Task Force on Harmonization of Public Sector Accounting (TFHPSA) who met in Paris, France in February 2004 (see list of WGI members on page v of this Report). They are not necessarily the views of the organizations to which WGI members belong, nor of other members of WGI who were not present at that meeting. Similarly, they are not necessarily the views of the International Public Sector Accounting Standards Board (IPSASB).

Preface

International Public Sector Accounting Standards (IPSASs)

International Public Sector Accounting Standards (IPSASs) deal with issues related to the presentation of annual general purpose financial statements (GPFs) of public sector reporting entities other than government business enterprises (GBEs). GBEs apply International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

GPFs are those financial statements intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of GPFs include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. The objectives of GPFs are to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it.

As at June 30, 2004, twenty Accrual Basis IPSASs and a comprehensive Cash Basis IPSAS had been issued. The issuance of these IPSASs establishes a core set of financial reporting standards for those public sector entities to which the standards apply. The accrual basis IPSASs issued as at June 30, 2004 are based on IFRSs to the extent that the IFRS requirements are applicable to the public sector.

The International Public Sector Accounting Standards Board's (IPSASB's) current work program includes:

- As its first priority, the development of IPSASs dealing with a range of public sector specific issues;
- As its second priority, ongoing convergence of IPSASs with IFRSs where appropriate for the public sector; and
- As its third priority, convergence with the statistical bases of financial reporting.

The IPSASB's work program is updated before each meeting to reflect progress made and emerging issues. It can be viewed on the IPSASB page of the IFAC website at www.ifac.org.

Statistical Bases of Financial Reporting

In June 2003, the Public Sector Committee (PSC – now the IPSASB) of IFAC initiated a meeting of officers of relevant international organizations – the International Monetary Fund (IMF), Eurostat, and the Organisation for Economic Co-operation and Development (OECD) – and some national organizations that had been working on convergence issues in relation to accounting and statistical bases of financial reporting – the United Kingdom Treasury, United Kingdom Office of National Statistics and the Australian Accounting Standards Board. The purpose of that meeting was to:

- identify differences in the information reported by IPSASs, the IMF's *Government Finance Statistics Manual 2001 (GFSM 2001)* and *European system of accounts (ESA95)/ESA95 manual of government deficit and debt (EMGDD)*;
- consider whether these differences are necessary for the different objectives of those systems; and
- identify a process to eliminate or reduce any unnecessary or unintended differences.

This initiative has further developed with the establishment of the international Task Force on Harmonization of Public Sector Accounting (TFHPSA). As indicated in the TFHPSA mandate reproduced at page iv of this Report, the purpose of the TFHPSA is to examine ways to minimize unnecessary differences between accounting and statistical bases of financial reporting and to make recommendations to the IPSASB, IMF and various groups involved in providing input to the update of the *System of National Accounts 1993* (1993 SNA) by 2008. The TFHPSA is chaired by the IMF. The Chair of the IPSASB is a member of the TFHPSA.

The TFHPSA includes two Working Groups: Working Group I (WGI) that focuses on issues related to the harmonization of accounting and statistical bases of financial reporting; and Working Group II (WGII) that focuses on issues related to the harmonization of *GFSM 2001* and 1993 SNA/ESA95.

WGI made the following recommendations on priority convergence issues to the, then, PSC at its March 2004 meeting:

- The development of an IPSAS that allows or encourages disclosure of information about the general government sector (GGS) (as defined in statistical bases of financial reporting) in whole of government GPFs, specifies rules when a government elects to make such disclosures, and acknowledges that other sectors may also be disclosed in a manner similar to the GGS information;
- The development of a long-term project on reporting financial performance that splits the comprehensive result into two components that aligns as far as possible with the split between transactions and other economic flows adopted in statistical bases of financial reporting; and
- The development or amendment of IPSASs that will require or allow the adoption of current values in IPSASs.

The Research Report

This Report was prepared by the following members of WGI:

- Ian Mackintosh, Chairman UK Accounting Standards Board;
- Robert Keys, Senior Project Manager, Australian Accounting Standards Board;
- Betty Gruber, Australian Bureau of Statistics/IMF; and
- Paul Sutcliffe, IPSASB Technical Director.

Key elements of the Report were discussed and agreed by members of WGI who met in Paris, France in February 2004. The Report is intended to provide input to the work of various groups who have an interest in converging the requirements of accounting and statistical bases of financial reporting.

Views Expressed

The membership of WGI is still developing. The views expressed in this Research Report are those of the authors who developed the Matrix that is at the core of this Report and the other members of WGI who met in Paris, France in February 2004 (see list of WGI members on page v of this Report). They are not necessarily the views of the organizations to which WGI members

belong, nor of other members of WGI who were not present at that meeting. Similarly, they are not necessarily the views of the IPSASB.

Acknowledgement

The IPSASB commends members of WGI and the authors for their work in developing this Report. The IPSASB is of the view that the Report makes a significant contribution to the literature on differences between accounting and statistical bases of financial reporting, and provides useful input to the long term convergence programs and opportunities for a number of bodies, including the IPSASB, the IMF and the groups concerned with the update of the 1993 SNA.

Philippe Adhémar
Chair, International Public Sector Accounting Standards Board
International Federation of Accountants

TASK FORCE ON HARMONIZATION OF PUBLIC SECTOR ACCOUNTING MANDATE

EXTRACTED FROM: [HTTP://WWW.IMF.ORG/EXTERNAL/NP/STA/TFHPSA/2003/100303.PDF](http://www.imf.org/external/np/sta/TFHPSA/2003/100303.pdf),

PREPARED AS AT OCTOBER 3, 2003

The objective of the TFHPSA is to study the feasibility of harmonization between the different international government accounting and statistical standards. These include the 1993 System of National Accounts (SNA), the 1995 European System of Accounts (ESA), the Government Finance Statistics Manual (GFSM 2001), the International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS), and the International Public Sector Accounting Standards (IPSAS). IPSAS are based on IAS / IFRS and future references will be made to IPSAS only, except in cases where there is any divergence between them.

Specifically, the TFHPA is mandated:

- To identify differences that exist between the various standards in the treatment of specific transactions, assets and liabilities.
- To identify areas where harmonization between the various standards is considered feasible and desirable, and to take action to affect the necessary amendments.
- To identify areas where harmonization between the various standards is not considered feasible or desirable, and to assess the implications of remaining differences between the standards.
- To make recommendations to the Inter-Secretariat Working Group on National Accounts (ISWGNA), for amending the SNA.

The TFHPSA consists of a Steering Group, the Task Force itself, and two Working Groups.

The Steering Group of the Task Force consists of representatives of the relevant international organizations and associations engaged in this work and individual countries that have demonstrated major efforts in this field. At present the Steering group is composed of:

- The IMF, the OECD, the International Federation of Accountants-Public Sector Committee (IFAC-PSC), Eurostat, the European Central Bank (ECB), and the International Accounting Standards Board (IASB)
- Australia and the United Kingdom. Additional countries may join the Steering Group in accordance with the above criteria.

The Task Force itself consists of senior statisticians and senior accounting policy officials from all interested countries, as well as representatives of international organizations.

Working Group I of the Task Force will focus on harmonization issues between GFSM 2001 and IPSAS, including ESA/SNA when relevant. (Issues identified as relevant to the other Working Group or other fora will be referred to the Task Force for further action as required).

Working Group II of the Task Force will focus on harmonization issues between GFSM 2001 and SNA/ESA, including IPSAS when relevant. (Issues identified as relevant to the other Working Group or other fora will be referred to the Task Force for further action as required).

The TFHPSA is chaired by the IMF. Working Group I of the Task Force is chaired by IFAC-PSC. Working Group II is chaired by the OECD. The OECD provides the Secretariat for the Task Force and its component groups.

Meetings of the Task Force and the Working Groups will take place in conjunction with relevant OECD meetings of senior accounting policy and statistics officials in order to minimize travel burden.

MEETING OF WORKING GROUP I

PARIS, FRANCE, FEBRUARY 2004

The views expressed in this Report are those of the majority of the following members of Working Group I of the TFHPSA who met in Paris, France in February 2004. They are not necessarily the views of the organizations to which those members belong, nor of other members of WGI who were not present at that meeting. References in this Report to the views of WGI, refer only to the views of these members of WGI.

Name	Positions and organizations as at February 2004
Ian Mackintosh	Working Group Chair; Manager, Financial Management for South Asia, World Bank.
Ian Carruthers	Head of Whole of Government Accounts Programme, Her Majesty's Treasury, UK
Phillipe de Rougement	Economist, Government Finance Division, Statistics Department, IMF
Jean-Pierre Dupuis	OECD Statistics Directorate
Betty Gruber	Senior Economist, Government Finance Division, Statistics Department, IMF
Graham Jenkinson	Director of National Expenditure and Income Division, Office for National Statistics, UK
Brett Kaufmann	Branch Manager, Accounting Policy Branch, Department of Finance and Administration, Australia
Robert Keys	Senior Project Manager, Australian Accounting Standards Board
Lucie Laliberté	Senior Advisor, Statistics Department, IMF
Paul Sutcliffe	Technical Director, PSC (now the IPSASB)

RESEARCH REPORT

International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: an Analysis of Differences and Recommendations for Convergence

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Executive Summary

Accounting and statistical bases for reporting financial information have different objectives, focus on different reporting entities and treat some transactions and events differently. However, they also have many similarities in treatment, deal with similar transactions and events and in some cases have a similar type of report structure. It has been argued that users of financial reports of public sector entities are confused by differences between statistical and accounting reporting bases and that there is significant benefit in better explaining those differences and in converging treatments of similar transactions and events to the extent possible.

This Report was developed by members of Working Group 1 (WGI)¹ of the international Task Force on Harmonization of Public Sector Accounting (TFHPSA). The purpose of the TFHPSA is to identify differences between accounting and statistical bases of financial reporting and make recommendations to those responsible for the development of accounting and statistical bases of financial reporting on approaches for the removal of unnecessary differences.

The centerpiece of this Report is a Table (the “Matrix”) which identifies, and groups for analytical purposes, key differences as at June 30, 2004 between accounting and statistical bases of financial reporting. The Matrix also identifies processes by which the differences could be reduced.

Requirements for accounting and statistical bases of financial reporting have already been developed by national and international accounting and statistical standards setting bodies. In many cases, these requirements are being implemented by governments and their agencies. The potential for any reduction in differences is dependent on these standards setters and related key groups and organizations:

- working together to remove existing unnecessary differences; and
- developing co-operative mechanisms to ensure that unintended differences do not arise in the future as existing financial reporting requirements are refined and additional requirements developed to deal with additional economic transactions and/or phenomena.

The standards setting bodies and related key groups and organizations referred to above include the International Federation of Accountants (IFAC) International Public Sector Accounting Standards Board (IPSASB – formerly the Public Sector Committee (PSC)), the International Accounting Standards Board (IASB), the International Monetary Fund (IMF), Eurostat and groups involved in the update of the *System of National Accounts 1993* (1993 SNA) such as the Inter-Secretariat Working Group on National Accounts (ISWGNA) and its Advisory Expert Group (AEG), the Organisation for Economic Co-operation and Development (OECD) Canberra

¹ The views expressed in this Report are those of the majority of members of WGI of the TFHPSA who met in Paris, France in February 2004. (The list of members of WGI who attended this meeting is provided at page v of this Report.) They are not necessarily the views of the organizations to which those members belong nor of other members of WGI who were not present at that meeting. References in this Report to WGI, or the views of WGI, refer only to the members of WGI who were present at that meeting.

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II Group and Working Group II (WGII) of TFHPSA². Many of these groups have been involved in the development of this Report and their goodwill and co-operation augur well for future convergence activities.

A number of these groups are currently undertaking work on projects that affect the convergence agenda. In many cases, these projects relate to issues identified in the Matrix. These are identified in Table 1 of this Executive Summary. (Readers should note that Table 1 does not necessarily identify all projects currently being progressed by these groups. It only identifies projects which are anticipated to be of particular significance to the convergence agenda.) In some cases, these projects are being developed as part of the process of updating the 1993 SNA for reissue in 2008. Appendix 1 of this Research Report identifies the process for updating the 1993 SNA (Section A) and provides a brief overview of the issues being considered as part of the update (Sections B and C).

This Report makes specific recommendations on convergence activities and convergence projects that could usefully be undertaken by the key groups. These are summarized in Table 2 of this Executive Summary. Table 2 also identifies groups that may also be undertaking related work and are encouraged to work together to develop a common solution. The final column of Table 2 provides a link to the fuller discussion of the recommendation in the Matrix itself.

Table 2 is designed to help each group identify the role it can play in progressing convergence and to assist in monitoring progress on convergence. It provides a useful overview of the issues and recommendations, but is not a substitute for the detailed analysis in the Matrix itself.

Many of the recommendations in this Report relate primarily to the work of the IPSASB rather than to other groups. This reflects the assessment that the IPSASB is in a better position than other groups to pursue convergence on certain issues. The Report recognizes that the IPSASB has an ongoing work program that includes progressing public sector specific issues and convergence with standards issued by the IASB, as well as convergence with statistical bases of financial reporting. In recognition of this, the Report identifies for the IPSASB's consideration the following as priority convergence projects:

- The development of an IPSAS that allows or encourages disclosure of information about the general government sector (GGS) (as defined in statistical bases of financial reporting) in whole of government general purpose financial statements (GPFs), specifies rules when a government elects to make such disclosures, and acknowledges that other sectors may also be disclosed in a manner similar to the GGS information (see the issues under category 1 of the Matrix);
- The development of a long-term project on reporting financial performance that splits the comprehensive result into two components that aligns as far as possible with the split between transactions and other economic flows adopted in statistical bases of financial reporting (see the issues under issue 8.4 of the Matrix); and
- The development or amendment of IPSASs that will require or allow the adoption of current values in IPSASs (see, for example, the issues under category 5 of the Matrix).

² WGII of the TFHPSA focuses on harmonization issues between *GFSM 2001* and 1993 SNA/ESA95. The mandate of the TFHPSA is reproduced on page iv of this Report.

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The Report notes that some differences will not, and arguably should not, converge over the long term. These are differences that arise because of the different objectives and focuses of accounting and statistical financial reporting bases. These differences are identified in Table 3 of this Executive Summary. In the long term it will be necessary to develop a reconciliation statement to deal with these differences and to illustrate the relationship between accounting and statistical reporting bases. Depending on the progress made on convergence of the issues identified in Table 2, that reconciliation statement may also need to deal with other differences. The Report argues that it is premature at this time to consider the form of such a reconciliation statement – time should be allowed to work through those issues identified in Table 2.

It is intended that WGI has an ongoing role in supporting the convergence of accounting and statistical financial reporting. As part of that role WGI will monitor the convergence activities of international accounting and statistical bodies responsible for establishing requirements for financial reporting. It is anticipated that Table 2 will be useful for this ongoing role and in determining at what stage, and in respect of what matters, resources of standards setters should be allocated to the development of a reconciliation statement to deal with outstanding differences between accounting and statistical bases of financial reporting.

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**TABLE 1: Summary of the convergence work that each group is currently undertaking.
(This does not identify requirements in place or potential future projects.)**

(See page 11 for a listing of acronyms used in these tables.)

Table 1 Issues by Key Groups	Group's work	Groups undertaking related work	Category/Issue Number
IPSASB³			
The scope of the reporting entity and sector reporting	Disclosure of GGS financial information	WGII Topics 1 and 4 (AEG Topics 34 and 36 ⁴)	1
Outside equity interest	ITC on non-exchange revenue.	WGII Topic 1 (AEG Topic 34)	2.1 & 2.2
Provisions arising from constructive obligations	ITC on social policy obligations	WGII Topic 5 (AEG Topic 37)	4.1
Impaired non-financial assets	ED 23/IPSAS 21 on Impairment		5.1 & 8.4 (k)
Prior period adjustments/back casting – correction of errors	IPSAS improvements project-revision of IPSAS 3		7.1(b)(ii) & 9.3
Tax credits	ITC on non-exchange revenue	WGII Topic 3 (AEG Topic 35)	8.4(p) & 9.5
Tax gap	ITC on non-exchange revenue	WGII Topic 3 (AEG Topic 35)	9.6 & 10.1
Time of recording of tax revenue	ITC on non-exchange revenue.	WGII Topic 3 (AEG Topic 35)	10.15
EUROSTAT			
Employee stock options	AEG Topic 3		4.4
IMF			
Nonperforming loans	AEG Topic 4a	IASB (IAS 39)	5.3
OECD CANBERRA II GROUP			
	See the Introduction to Appendix 1 for an explanation of the group's work – many groups are working on topics for the SNA revision.		
Costs associated with R&D and other intangible assets	AEG Topics 9-13, 21, 22, 28, 29, 30	IASB (IAS 38)	3.1
Public private partnerships (such as BOOT schemes)	AEG Topic 24	IASB – IFRIC, WGII Topic 4	3.4
Extractive industries (exploration and evaluation)	AEG Topic 17	IASB	3.2 & 5.9
Extractive industries (development and production)	AEG Topic 17	IASB	5.10
Terminology and definitions: current value	AEG Topic 30		9.2
Terminology and definitions: asset recognition criteria	AEG Topic 30		9.10
WGII			
The scope of the reporting entity and sector reporting	WGII Topics 1 and 4 (AEG Topics 34 and 36)	IPSASB Disclosure of GGS financial information	1
Outside equity interest	WGII Topic 1 (AEG Topic 34)	IPSASB (ITC on non-exchange	2.1

³ The IPSASB has an extensive work program. The convergence projects identified in table 1 are only a subset of the IPSASB's full work program.

⁴ Topics referred to as "AEG Topic X" in this Table are being considered as part of the update of the 1993 SNA. A description of these topics is included at Appendix 1 of this Report.

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Table 1 Issues by Key Groups	Group's work	Groups undertaking related work	Category/Issue Number
		revenue)	
Distributions payable to owners as holders of equity instruments	WGII Topic 1 (AEG Topic 34)		2.3(a)
Public private partnerships (such as BOOT schemes)	WGII Topic 4 (AEG Topic 24)	IASB – IFRIC, OECD Canberra II Group (AEG Topic 24) (Note: OECD Canberra II Group are undertaking the specific project but WGII are looking at the issue in the context of the GGS/public sector delineation.)	3.4
Provisions arising from constructive obligations	WGII Topic 5 (AEG Topic 37)	IPSASB (ITC on social policy obligations)	4.1
Tax effect accounting	WGII Topic 3 (AEG Topic 35)		4.3
Recognition and derecognition of financial instruments	WGII Topic 2 (AEG Topic 25c)	IMF	6.1
Terminology and definitions: public sector for-profit entities	WGII Topic 4 (AEG Topic 36)		9.4
Tax credits	WGII Topic 3 (AEG Topic 35)	IPSASB (ITC on non-exchange revenue)	8.4(p) & 9.5
Tax gap	WGII Topic 3 (AEG Topic 35)	IPSASB (ITC on non-exchange revenue)	9.6 & 10.1
Privatizations	WGII Topic 2 (AEG Topic 25c)		10.3
Time of recording of tax revenue	WGII Topic 3 (AEG Topic 35)	IPSASB (ITC on non-exchange revenue)	10.15

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TABLE 2: Summary of Recommendations made to Key Groups

Table 2 Issues by Key Groups	Summary of recommendations	Groups undertaking related work	Category/Issue Number
IPSASB			
The scope of the reporting entity and sector reporting	<p>Allow/encourage disclosure of GGS information for a particular jurisdiction in whole of government GPFSS; specify rules when a government elects to make such disclosures, including requiring “investment in controlled entities in other sectors” to be accounted for on a partial consolidation basis and measured at the proportional interest in the net assets.</p> <p>Allow/encourage disclosures about other sectors and the subsectors of general government in a manner similar to the GGS information.</p> <p>With ISWGNA, develop common tests of control/boundary of the public sector and GGS.</p>	WGII	1
Determination of: • net worth/net assets/equity; and • contributions from owners, for commercial government operations	With IMF, align guidance on when an item is a contribution from owners and revenue.	WGII	2.2
Distributions receivable from controlled entities	Consider development of guidelines for distinguishing dividends from return of contributed capital.		2.3(b)
Costs associated with R&D and other intangible assets	Consider IAS 38.	OECD Canberra II Group and IASB	3.1
Public private partnerships (such as BOOT schemes)	Consider issue.	IASB – IFRIC, OECD Canberra II Group, WGII	3.4
Tax effect accounting	Consider IAS 12.	WGII	4.3
Employee stock options	Consider IFRS 2.	Eurostat	4.4
Measurement of assets, liabilities and net assets/equity	<p>Consider limiting the circumstances under which an option of historical cost should be available.</p> <p>Consider adopting requirements of IAS 39.</p>	OECD Canberra II Group, IVSC	5
Transaction costs: costs of issuing equity instruments	Consider issues.		5.2(a)
Transaction costs: determination of carrying amount – costs of disposing of non-financial and financial assets	Consider IAS 39, IAS 41 and IFRS 5.		5.2(b) & (c)
Low interest and interest free loans	Develop an IPSAS based on the ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)”.		5.4

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Table 2 Issues by Key Groups	Summary of recommendations	Groups undertaking related work	Category/Issue Number
Inventory	Ask IASB to reconsider inventory measurement.		5.5
Measurement of investments in unquoted shares (entities that are not controlled or subject to significant influence)	Consider adopting requirements of IAS 39.		5.7
Biological assets (that is, living animals and plants)	Consider adopting requirements of IAS 41.		5.8
Extractive industries (exploration and evaluation)	Monitor IASB.	OECD Canberra II Group	3.2 & 5.9
Extractive industries (development and production)	Monitor IASB.	OECD Canberra II Group and IASB	5.10
Recognition and derecognition of financial instruments	Consider adopting requirements of IAS 39. With IMF, remove any differences in interpretation re set-off of assets and liabilities. Monitor IASB.	WGII, IMF and IASB	6.1
Currency on issue/seigniorage	Consider issues.		6.2
Prior period adjustments/back casting – correction of errors	Consider IAS 8.		7.1(b)(ii)
Format and presentation (including classification) of the cash flow statement	Consider presentation of <i>GFSM 2001</i> notion of “cash surplus/deficit” in the Statement of Cash Flows.		8.2
Format and presentation (including classification) of the statement of financial performance	Progress a long-term project on reporting financial performance that splits the comprehensive result into two components that aligns as far as possible with the split between transactions and other economic flows adopted in statistical bases of financial reporting. Consider encouraging adoption of COFOG for presentation purposes.		8.4 (This issue is broken down into 16 issues (8.4(a) to (p)). The specific recommendation on each issue is not reproduced in this Table
Terminology and definitions	Attempt to resolve differences between <i>GFSM 2001</i> and IPSASs.	WGII, OECD Canberra II Group	9
Borrowing costs	Monitor IASB work.		10.4
Measurement of non cash-generating assets	With IMF, work to align guidance on the valuation of non cash-generating assets including heritage assets.		10.7
ISWGNA/AEG			
The scope of the reporting entity and sector reporting	With IPSASB, develop common tests of control/boundary of the public sector and GGS.	IPSASB, WGII	1

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Table 2 Issues by Key Groups	Summary of recommendations	Groups undertaking related work	Category/Issue Number
Defense weapons	Progress OECD Canberra II Group recommendations, particularly distinguishing inventory from P,P&E.		3.3
Employee stock options	Consider IFRS 2.	Eurostat	4.4
Low interest and interest free loans	Consider partitioning loans, and monitor IPSASB ITC on non-exchange revenue.		5.4
Currency on issue/seigniorage	Develop an agreed definition of ???		6.2
Format and presentation (including classification) of the statement of financial performance	Consider whether the current classification of various items as transactions/other economic flows is appropriate.		8.4(i), (j) & (o)
Terminology and definitions: assets; current value; materiality; net assets/net worth	Consider IPSASs.		9.1, 9.2, 9.7 & 9.9
OECD CANBERRA II GROUP			
Costs associated with R&D and other intangible assets	Work with IASB.	IASB	3.1
Extractive industries (exploration and evaluation)	Monitor IASB.	IASB	3.2
Decommissioning/restoration costs	Consider notion of “negative asset”.	IPSASB (IPSAS improvements project)	4.2
Measurement of assets, liabilities and net assets/equity	In considering measurement of non-financial assets, consider IPSASs and IVSC work.	IPSASB (IPSAS improvements project) and IVSC	5
Extractive industries (development and production)	Monitor IASB.	IASB	5.10
EUROSTAT			
The scope of the reporting entity and sector reporting	With IMF, align guidance in ESA 95 and <i>GFSM 2001</i> on how GGS boundary is defined.	WGII and IPSASB	1
IMF			
The scope of the reporting entity and sector reporting	With Eurostat, align guidance in ESA 95 and <i>GFSM 2001</i> on how GGS boundary is defined.	WGII and IPSASB	1
Determination of: <ul style="list-style-type: none"> • net worth/net assets/equity; and • contributions from owners, for commercial government operations 	With IPSASB, align guidance on when an item is a contribution from owners and revenue.	IPSASB (ITC on non-exchange revenue) and WGII	2.2

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Table 2 Issues by Key Groups	Summary of recommendations	Groups undertaking related work	Category/Issue Number
Provisions arising from constructive obligations	Monitor IPSASB ITC on social policy obligations.	IPSASB (ITC on social policy obligations) and IASB	4.1
Nonperforming loans	Consider requirements of IAS 39.		5.3
Low interest and interest free loans	Consider partitioning loans and monitor IPSASB ITC on non-exchange revenue.	IPSASB (ITC on non-exchange revenue)	5.4
Recognition and derecognition of financial instruments	Clarify <i>GFSM 2001</i> where a general government unit assumes debt. Consider IAS 39 derecognition criteria. With IPSASB, remove any differences in interpretation re set-off of assets and liabilities.	WGII and IASB	6.1
Currency on issue/seigniorage	Consider issues.		6.2
Format and presentation (including classification) of the cash flow statement	Consider prohibiting disclosure of notional cash flows relating to finance leases on the face of the Statement of Cash Flows. Clarify treatment of finance leases at inception.		8.2
Format and presentation (including classification) of the statement of financial performance	Consider whether the Statement of Government Operations and the Statement of Other Economic Flows should be combined into one Statement, and review current definitions of “transactions” and “other economic flows” and/or their interpretation. Work with IPSASB as appropriate.	IPSASB and IASB	8.4 (This issue is broken down into 16 issues (8.4(a) to (p)). The specific recommendation on each issue is not reproduced in this Table)
Terminology and definitions	Work with IPSASB to align.		9
“Subscriptions” to international organizations	Consider clarifying that, depending on their nature, “subscriptions” to international non-monetary organizations could give rise to expenses.		10.6
Measurement of non cash-generating assets	With IPSASB, work to align guidance on the valuation of non cash-generating assets including heritage assets.	IPSASB (ED 23/IPSAS 21 on Impairment and IPSAS improvements project)	10.7

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TABLE 3: Expected Remaining/Longer-Term Reconciling Items due to Differences in Objectives/Focus

Table 3 Issue	Comment	Category/Issue Number
Accounting for controlled entities	Despite potential convergence in some areas, differences are likely to remain in respect of the representation of the GGS's investment in controlled entities with traded shares.	1.3
Outside equity interest		2.1
Determination of: <ul style="list-style-type: none"> • net worth/net assets/equity; and • contributions from owners, for commercial government operations 	Despite potential convergence and clarification of definitions, differences in the nature of the entity in accounting and statistical bases of financial reporting mean that treatments are unlikely to be fully harmonized.	2.2
Distributions payable to owners as holders of equity instruments and receivable from controlled entities	See above.	2.3
Costs associated with R&D and other intangible assets	Despite potential convergence in some areas, differences will remain to the extent recognition criteria differ.	3.1
Provisions arising from constructive obligations	Despite potential convergence in some areas, different requirements for the existence of a counterparty mean that treatments are unlikely to be fully harmonized.	4.1
Decommissioning/restoration costs	See above.	4.2
Tax effect accounting	See above.	4.3
Investments in associates	Despite potential convergence in some areas, differences are likely to remain in respect of the representation of the GGS's investment in associates with traded shares.	5.6
Biological assets (that is, living animals and plants)	Despite potential convergence in some areas, differences may remain to the extent that measurement bases differ for certain biological assets.	5.8
Prior period adjustments/back casting	Possibly in certain circumstances such as involuntary changes in accounting policies and depending on distinction between correction of error and change of estimate.	7.1
Format and presentation (including classification) of the statement of financial performance	Various items, to the extent that classifications as transactions/other economic flows continue to differ between reporting bases.	8.4

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List of Acronyms

Acronyms are widely used in the literature, and in this Report. The more common acronyms are identified below:

AASB	Australian Accounting Standards Board
AEG	Advisory Expert Group
BPM	Balance of Payments Manual
COFOG	Classification of the Functions of Government
ECB	European Central Bank
EDG	Electronic Discussion Group
EMGDD	ESA95 manual on government deficit and debt
ESA	European system of accounts
GBE	Government Business Enterprise
GFS	Government finance statistics
GGS	General government sector
GFS	Government finance statistics
GFSM	Government Finance Statistics Manual
GPFS	General purpose financial statement
GAAP	Generally Accepted Accounting Principles
HOTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee – Australia
HOTs	Heads of Treasuries – Australia
IASs	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRSs	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretations Committee
IMF	International Monetary Fund
IPSASB	International Public Sector Accounting Standards Board of IFAC
IPSASs	International Public Sector Accounting Standards
ISWGNA	Inter-Secretariat Working Group on National Accounts
ITC	Invitation to Comment
IVSC	International Valuation Standards Committee
OECD	Organisation for Economic Co-operation and Development
ONS	Office of National Statistics – United Kingdom
PFC	Public Financial Corporations
PNFC	Public Non Financial Corporations
PSC	Public Sector Committee
SNA	System of National Accounts
TFHPSA	Task Force on Harmonization of Public Sector Accounting
UNSD	United Nations Statistical Department
WGI	Working Group I of TFHPSA
WGII	Working Group II of TFHPSA

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RESEARCH REPORT:

International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence

Please note: This Report contains references to the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC). As of November 11, 2004 the International Public Sector Accounting Standards Board (IPSASB) replaced the PSC.

Introduction

Accounting and statistical bases for reporting financial information have different objectives, focus on different reporting entities and treat some transactions and other events differently. However, both accounting and statistical bases adopt accrual accounting principles, have many similar requirements for the recognition and measurement of financial information, deal with similar transactions and other events and in some cases have a similar report structure.

Accounting bases for reporting financial information

International Financial Reporting Standards (IFRSs) are issued by the International Accounting Standards Board (IASB) for application by profit-oriented entities. International Public Sector Accounting Standards (IPSASs) are issued by the International Federation of Accountants (IFAC) International Public Sector Accounting Standards Board (IPSASB) (formerly known as the Public Sector Committee (PSC)) for application to governments and other public sector entities (other than government business enterprises (GBEs)). The standards issued by the IASB and the IPSASB represent the international accounting model of financial reporting, sometimes referred to as international GAAP (Generally Accepted Accounting Principles). In many countries national standard setters and other authoritative bodies develop 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 the public and private sectors to the extent appropriate.

As of June 30, 2004, the IPSASB had issued 20 IPSASs for application when the accrual basis of financial reporting is adopted, and was finalizing an IPSAS on the impairment of non-cash generating assets. The IPSASs are based on IFRSs to the extent that the requirements in International Financial Reporting Standards (IFRSs) are applicable to the public sector. A comprehensive cash basis IPSAS has also been issued. The IPSASB's current work program includes the development of IPSASs dealing with a range of public sector specific issues as its first priority, ongoing convergence of IPSASs with IFRSs where appropriate for the public sector as its second priority, and convergence with the statistical financial reporting bases as its third priority.

The primary focus of this Report is on financial reporting by governments and other public sector reporting entities (other than GBEs) under the accrual basis of accounting. The IPSASs apply to general purpose financial statements (GPFSS) of public sector entities (other than

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GBEs), and are prepared to achieve the objectives of GPFSS. The nature and objectives of GPFSS are identified in Box 1.

Statistical bases for reporting financial information

The overarching model for macroeconomic statistics is the *System of National Accounts, 1993* (1993 SNA). The 1993 SNA is a framework for a systematic and detailed description of the total national economy and its components, including the general government sector, and its relations with other economies. It has been produced under the joint responsibility of the United Nations, the International Monetary Fund (IMF), the Commission of the European Communities, the Organisation for Economic Co-operation and Development (OECD) and the World Bank. Other internationally recognized macroeconomic statistical bases are harmonized with the 1993 SNA to the extent consistent with their objectives. The European Union's statistical model, the European system of accounts (ESA95), is fully consistent with the 1993 SNA. ESA95 is complemented by the *ESA95 manual on government deficit and debt* (EMGDD), which has been prepared to aid the application of the ESA95 (the conceptual reference framework) for calculating the government deficit and debt.

For government finance statistics, the statistical model is the IMF's *Government Finance Statistics Manual 2001* (*GFSM 2001*). This model is harmonized with the 1993 SNA. Although the *GFSM 2001* focuses on the general government sector, its guidelines apply equally to corporations in the public sector. The nature and objectives of the *GFSM 2001* are identified in Box 2.

Currently, the 1993 SNA is being updated, with the objective of publishing a revision in 2008. The Inter-Secretariat Working Group on National Accounts (ISWGNA) has the mandate to oversee the update. As part of the updating process, the ISWGNA and its Advisory Expert Group (AEG) will assess and evaluate the consistency between the SNA and other macroeconomic statistical manuals; and, where feasible, take into account the latest developments in international accounting standards. The ISWGNA and AEG seek input from groups of experts, such as the OECD Canberra II Group, and taskforces, such as the Task Force on Harmonization of Public Sector Accounting (TFHPSA) on particular issues being considered as part of the update. Following the release of the revision to the 1993 SNA in 2008, the other macroeconomic statistical manuals will be reviewed and revised to enhance consistency between the statistical bases. Appendix 1 identifies the process for updating the 1993 SNA (Section A) and provides an overview of the issues being considered as part of the update (Sections B and C).

The Research Report

This Research Report was developed by members of Working Group 1 (WGI)⁵ of the international TFHPSA who met in February 2004. Its purpose is to support the convergence activities of groups involved in the development of financial reporting requirements under accounting and statistical bases of financial reporting. The Report benefited significantly from

⁵ The views expressed in this Report are those of the majority of members of WGI of the TFHPSA who met in Paris, France in February 2004. (The list of members of WGI who attended this meeting is provided at page v of this Report.) They are not necessarily the views of the organizations to which those members belong nor other members of WGI who were not present at that meeting. References in this Report to WGI, or the views of WGI, refer only to the members of WGI who were present at that meeting.

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input from the Australian Heads of Treasuries (HOTs) Accounting and Reporting Advisory Committee (HOTARAC) for the Australian project on GAAP/GFS Convergence.⁶

The Task Force on Harmonization of Public Sector Accounting

The purpose of the TFHPSA is to identify differences between accounting and statistical bases of financial reporting and make recommendations to the IPSASB, IMF and various groups involved in providing input to the update of the 1993 SNA by 2008 on approaches by which unnecessary differences can be reduced or eliminated. The TFHPSA includes two Working Groups: WGI that focuses on harmonization issues between accounting and statistical bases of financial reporting; and Working Group II (WGII) that focuses on harmonization issues between *GFSM 2001* and 1993 SNA/ESA95. (The mandate of the TFHPSA is reproduced at page iv of this Report.)

It is intended that WGI have an ongoing role to:

- monitor the convergence and other relevant activities of international accounting and statistical bodies responsible for establishing requirements for financial reporting; and
- work towards aligning, to the extent possible, definitions and terminology between the bases with a view to limiting differences that might otherwise emerge in the future.

Convergence

Those involved in the preparation of this Report are of the view that the convergence of accounting and statistical bases for reporting financial information is a worthwhile and achievable objective. Without convergence, information published under the different reporting bases may confuse users. This will occur where the reports produced under the different bases purport to reflect the same economic phenomena using accrual accounting principles, but report different results. Convergence also has the potential to minimize costly duplication of effort in producing information for different reporting bases, and to improve the reliability of the information.

However, those involved in the preparation of this Report also recognize that some differences reflect the different objectives and focuses of the accounting and statistical bases, and these differences will remain over the long term.

The centerpiece of this Report is a table (the “Matrix”) which identifies differences between accounting and statistical bases for reporting financial information, and makes recommendations for convergence activities.

Many of the recommendations made in this Report relate primarily to the work of the IPSASB rather than to other groups. This reflects the view that the IPSASB is in a better position than other groups to pursue convergence on certain issues. However, this Report recognizes that the

⁶ The input from HOTs and HOTARAC comprised issues papers which were submitted as input to the Australian project on GAAP/GFS Convergence being progressed by the Australian Accounting Standards Board (AASB). The first HOTARAC submission was provided as an agenda paper at the October 2003 meeting of the Steering Group of the TFHPSA. A subsequent submission (which included supplementary material relating to some of the key issues raised in the earlier submission, together with material relating to certain additional issues) was considered at the December 2003 AASB meeting. Two Consultation Papers, based on the HOTARAC work, were issued by the AASB for comment by a Project Advisory Panel by 31 January 2004. The Consultation Papers together with the HOTARAC papers are available at www.aasb.com.au.

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IPSASB is already committed to a well developed work program which encompasses the development of IPSASs on many issues of great significance to the public sector, in addition to activities intended to enhance convergence of accounting and statistical bases of financial reporting. In recognition of this, the Report identifies as the priority projects for the IPSASB's consideration the following:

- The development of an IPSAS that allows or encourages disclosure of information about the general government sector (GGS) (as defined in statistical bases of financial reporting) in whole of government GPFs, specifies rules when a government elects to make such disclosures, and acknowledges that other sectors may also be disclosed in a manner similar to the GGS information (see the issues under category 1 of the Matrix);
- The development of a long-term project on reporting financial performance that splits the comprehensive result into two components that aligns as far as possible with the split between transactions and other economic flows adopted in statistical bases of financial reporting (see the issues under issue 8.4 of the Matrix); and
- The development or amendment of IPSASs that will require or allow the adoption of current values in IPSASs (see, for example, the issues under category 5 of the Matrix).

BOX 1 OBJECTIVES OF IPSAS BASED FINANCIAL STATEMENTS

From IPSAS 1 “*Presentation of Financial Statements*”

General purpose financial statements

General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. (paragraph 2)

Purpose of Financial Statements

Financial statements are a structured representation of the financial position of and the transactions undertaken by an entity. The objectives of general purpose financial statements are to provide information about the financial position, performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

- (a) Providing information about the sources, allocation and uses of financial resources;
- (b) Providing information about how the entity financed its activities and met its cash requirements;
- (c) Providing information that is useful in evaluating the entity’s ability to finance its activities and to meet its liabilities and commitments;
- (d) Providing information about the financial condition of the entity and changes in it; and
- (e) Providing aggregate information useful in evaluating the entity’s performance in terms of service costs, efficiency and accomplishments. (paragraph 13)

General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

- (a) Indicating whether resources were obtained and used in accordance with the legally adopted budget; and
- (b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities. (paragraph 14)

(See also IPSAS 1, paragraphs 15 and 16, which identify that financial statements provide information about assets, liabilities, net asset/equity, expenses and cash flow; and explain that financial statements should be supported with information about the achievement of service delivery objectives.)

BOX 2 OBJECTIVES OF STATISTICAL BASED FINANCIAL STATEMENTS

Based primarily on material drawn from *GFSM 2001*

The primary purpose of statistical frameworks is to provide comprehensive accounting frameworks for economic analysis, decision-taking and policy making. In the case of government finance statistics (GFS), the primary purpose of the *GFSM 2001* is to provide a comprehensive conceptual and accounting framework suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector (GGS) and the broader public sector of any country.

The GFS system is designed to provide statistics that enable policymakers and analysts to study developments in the financial operations, financial position, and liquidity situation of the GGS or the public sector in a consistent and systematic manner. The GFS analytic framework can be used to analyze the operations of a specific level of government and transactions between levels of government as well as the entire general government or public sector.

The GFS system is harmonized with the overarching 1993 SNA, ESA95 and two specialized systems that are focused on the balance of payments and monetary and financial statistics. The harmonization with other macroeconomic statistical systems means that data from the GFS system can be combined with data from other systems to assess general government or public sector developments in relation to the rest of the economy. Similarly, the establishment of internationally recognized standards permits government finance statistics to be used in cross-country analyses of government operations, such as comparisons of ratios of taxes or expense to gross domestic product.

The Matrix – Structure

The Matrix identifies and explains differences between IPSASs and *GFSM 2001* (and ESA95/EMGDD/SNA) as at June 30, 2004, and identifies processes by which the differences could be reduced. Where an IFRS deals with an issue for which an IPSAS has not been issued, reference is made to the IFRS. The issues are grouped in categories that broadly reflect the nature and sequence of the decision process adopted in developing financial statements for an entity: first the boundary of the entity is identified (category 1); then decisions are made about definition and recognition (categories 2, 3, 4 and 6), measurement (categories 5 and 6), and finally, presentation (categories 7 and 8). The categories are:

1. The scope of the reporting entity and sector reporting. This category relates to the boundary of the reporting entity under each reporting model and the consequences of that boundary for consolidation of, and accounting for, controlled entities and disclosures about sectors of the entity.
2. Outside ownership relationships. This category relates to how each reporting model treats the relationship between a reporting entity and its owners, and how ownership interests are measured and presented (including classified).

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3. Recognition of assets (other than financial instruments). This category relates to the capitalization policies adopted under each reporting model. The Report reflects the view that consideration of recognition and measurement issues could enlighten consideration of definitional issues. As such, these matters are considered prior to consideration of any differences in the definition of assets, liabilities, revenues, expenses and net assets/equity under accounting and statistical bases (see category 9).
4. Counterparty/symmetry and recognition. This category relates to the emphasis each reporting model places on the existence of a counterparty to a transaction, and the accounting adopted by that counterparty, in determining whether liabilities/assets are recognized by a reporting entity.
5. Measurement of assets, liabilities and net assets/equity. This category relates to the measurement bases adopted under each reporting model.
6. Financial instruments. Many, but not all, issues relating to the treatment of financial instruments are included in other categories in this list. This category captures those issues not dealt with elsewhere. It is necessary given the wide range and significance of these issues.
7. Time series. This category relates to how each reporting model treats such matters as errors and revisions of accounting estimates identified in the current reporting period, and the time periods (reporting periods) in which items are recognized/presented.
8. Financial statements for the reporting entity (and/or sectors thereof). This category relates to the form and content of the financial statements published under each reporting model. This category mainly relates to performance reporting and, in particular, to issues surrounding reporting of comprehensive result and its “split” into transactions/other economic flows. This category has been structured to distinguish between those items where it is expected that accounting and statistical financial reporting bases will, and will not, align.

IPSASs issued by the IPSASB currently allow alternative treatments in certain circumstances. The Matrix reflects the view that if compliance with one of the options in the IPSASs aligns with the treatment under statistical reporting bases, then convergence is achieved.⁷ However, to strengthen convergence, and consistent with a view that accounting standards should not provide options, it is proposed that some IPSASs are amended to remove options that are not available in statistical financial reporting bases.

⁷ For example, IPSAS 17 “Property, Plant and Equipment” requires property, plant and equipment to be measured subsequent to initial recognition at cost less any accumulated depreciation and impairment losses or fair value less any accumulated depreciation. If an entity adopts the cost option for ongoing measurement, that would not align with the statistical reporting bases’ requirement to measure such assets at market value. However, adoption of the fair value option in IPSAS 17 would broadly align with statistical reporting bases (to the extent that fair value aligns with market value).

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Categories 9 and 10 identify matters that are anticipated to emerge as convergence activities continue to develop and evolve:

9. Terminology and definitions; and
10. Items considered and found not to or not expected to be a cause of a difference.

This Report reflects the first substantial analysis of differences between IPSASs and statistical reporting bases. As further work is undertaken, and as practice develops, additional differences may be identified. Monitoring and removing unnecessary differences in terminology and definitions will facilitate ongoing convergence of accounting and statistical reporting bases. It is anticipated that category 9, and the other categories, will be expanded as additional differences are identified.

Category 10 is useful as an “historical trail”. As the convergence issues are resolved they will be classified to category 10.

Convergence – Key Groups, Recommendations and a Way Forward

In many cases, issues or aspects thereof, are being worked on by different groups. In some cases, issues relate to more than one of the categories identified above. In recognition of this, the Matrix acknowledges links to topics being considered by other groups such as WGII of the TFHPSA, the ISWGNA/AEG and the OECD Canberra II Group and cross-references certain issues to other related categories/issues.

The “option for convergence” for each difference noted in the Matrix is predicated on the expectation that neither the accounting nor statistical reporting model could adopt the other model in its entirety and still achieve its objectives (accountability and decision making about the entity for IPSASs, and macroeconomic analysis for the sectors of government and their impact on the economy for *GFSM 2001* and *ESA95*). However, it is worth noting that full convergence could be achieved by statistical reporting bases being amended to align with IPSASs, or by IPSASs being amended to allow general purpose financial statements to be prepared for the general government sector (as defined by statistical reporting bases) of a government in accordance with statistical reporting bases, as relevant. An approach of continuing to adopt IPSASs for general purpose financial statements of governments with disclosures of related information prepared on the basis of statistical reporting bases could also be contemplated as a mechanism to enhance convergence.

The recommendations made in this report can be summarized as recommendations for:

- the IPSASB and IASB to amend or clarify certain of their reporting requirements; and
- the TFHPSA to refer the issue to another group or groups (OECD Canberra II Group, Working Group II of the TFHPSA, or various Electronic Discussion Groups [EDGs]) and subsequently to the ISWGNA/AEG to amend or clarify the SNA (which could then result in amendment or clarification of *GFSM 2001* and other statistical manuals).

In addition, 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

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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.

Clearly it is not realistic to expect that all the groups identified above will be able to make all the recommended changes to their extant financial reporting requirements in the short or medium terms. As noted previously, many of these groups are already committed to a full ongoing work program. As such, these recommendations represent a roadmap and agenda for ongoing convergence over the long term.

The success of convergence activity is dependent on the co-operation, and co-ordination of the activities, of the various key groups identified in this Report. In this context, the IPSASB is encouraged to continue to participate in the TFHPSA and WGII of the TFHPSA (and vice versa). While this Report recognizes the resource constraints that the IPSASB operates under, it encourages the IPSASB to also participate in the OECD Canberra II Group as far as appropriate and possible (and vice versa). Similarly, the IMF and Eurostat are encouraged to continue to participate in IPSASB work as observers on the IPSASB and in IPSASB Steering Committees on specific projects as appropriate.

In some cases, accounting and statistical financial reporting bases define the same concepts in different ways. Although the differences in the wording of the definitions are not the primary or major source of current differences in the reporting bases, differences in wording of the elements of financial statements (assets, liabilities, revenues, expenses and net assets/equity) and other key definitions (such as transactions and other economic flows and those relating to recognition criteria) have the potential to drive substantial differences in requirements. As part of the long term strategy directed at limiting the potential for unintended differences to emerge in the future, it is recommended that WGI's ongoing role include a consideration of a strategy for aligning those definitions in the respective reporting bases, to the extent appropriate. In this respect, WGI may be able to make a useful contribution to any work the IPSASB undertakes in further developing, and making explicit, components of the public sector conceptual framework reflected in the existing IPSASs, and those under development.

The progress that will be made on convergence will depend on the work programs of the various groups. The IPSASB's work program is updated before each IPSASB meeting to reflect progress made and emerging issues. It can be viewed on the IPSASB page of the IFAC website at www.ifac.org. A number of the other groups identified in this Report are currently undertaking work on projects as part of the update of the 1993 SNA. Information on the updating process and list of issues for updating are available on the ISWGNA website at <http://unstats.un.org/unsd/nationalaccount/snarev1.htm>. As noted in the Introduction, this Research Report reflects the status of issues as at June 30, 2004. The websites of IFAC and ISWGNA provide information about events subsequent to that date.

This Report notes that it is likely that there will always be some differences between the requirements of accounting and statistical financial reporting bases, to reflect the different objectives and focus of those bases. In the long term it will be necessary to develop a reconciliation statement to deal with these differences and to illustrate the relationship between

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accounting and statistical reporting bases. Depending on the progress made on convergence, that reconciliation statement may also need to deal with other issues. This Report does not propose that the resources of accounting and statistical standards setters should be allocated to the development of a reconciliation statement at this time. Rather, some time should be allowed to work through the convergence process. The need for, and nature of, any reconciliation statement should then be revisited by WGI in the future as part of its ongoing role.

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The Matrix

The following Matrix identifies, and groups for analytical purposes, key differences between accounting and statistical bases of financial reporting as at June 30, 2004. It also identifies the recommendations of Working Group I (WGI) of the Task Force on Harmonization of Public Sector Accounting (TFHPSA) on options for convergence.

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Category and Issue	Treatment in IPSASs as of June 30, 2004 (or in IASs/IFRSs where no IPSAS is in place)	Treatment in <i>GFSM 2001</i>	Treatment in <i>ESA95/EMGDD/SNA</i>	Working Group I Recommendations
	All IPSASs on issue are identified in Appendix 2			
1: THE SCOPE OF THE REPORTING ENTITY AND SECTOR REPORTING	All terms defined in International Public Sector Accounting Standards (IPSASs) are included in the “Glossary of Defined Terms: IPSAS 1 to IPSAS 20”	All terms defined in the <i>Government Finance Statistics Manual 2001 (GFSM 2001)</i> are included in the Glossary available on the IMF’s website.		
1.1 The reporting entity	<p>1.1 The relevant IPSAS is IPSAS 1 “Presentation of Financial Statements” (issued May 2000). IPSASs apply to general purpose financial statements (GPFs) prepared by an individual public sector entity (other than a government business enterprise (GBE)) or a group of entities termed an economic entity, for e.g., the ‘whole of government’ entity, which may be a central, state, territory or local government. For financial reporting purposes, an <u>economic entity</u> “is a group of entities comprising the controlling entity and one or more controlled entities”. (IPSAS Glossary of Defined Terms)</p> <p>A whole of government report prepared under IPSASs for a central government of a country is not the total public sector for that country, to the extent that other levels of government are not controlled by the central government.</p> <p>GBEs are subject to International Accounting Standards Board (IASB) standards rather than IPSASs.</p> <p>In IPSAS 18 “Segment Reporting” (issued June 2002), a <u>segment</u> is a “distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity’s past performance in achieving its objectives and for making decisions about the future allocation of resources”. (IPSAS Glossary of Defined Terms)</p> <p>Segments are disclosed as a note in the GPFs.</p>	<p>1.1 A statistical unit is an <u>institutional unit</u>, i.e. an (economic) entity that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities. (<i>GFSM 2001</i> para 2.11)</p> <p>The reporting entity may be an institutional unit or a group of institutional units. The scope of the reporting entity is not necessarily determined by the notion of control.</p>	<p>1.1 Same as <i>GFSM 2001</i>. However, European System of National Accounts 1995 (ESA95) has developed rules, for example, for identifying public corporations.</p>	<p>Option for Convergence (for the IPSASB) A general government sector (GGs – as defined by the System of National Accounts (1993 SNA) and <i>GFSM 2001</i>) financial report for a particular jurisdiction prepared on a “partial consolidation” basis (whereby certain controlled entities are not fully consolidated) is not a general purpose financial statement (GPFs). However, financial information prepared on such a basis may be useful to users of GPFs. Accordingly, it is recommended that the IPSASB allow/encourage information about the GGS for a particular jurisdiction to be disclosed in the whole of government GPFs of that jurisdiction. It is relevant to note that this approach would enable GGS stand-alone financial information to be extracted from the fully-consolidated GPFs, thereby facilitating substantial progress towards convergence.</p> <p>It is further recommended that the IPSASs specify the disclosures to be made about the GGS where a government elects to disclose GGS information in its GPFs. IPSASs should also encourage disclosures about other sectors (PNFC and PFC separately) and the subsectors of general government in a manner similar to the GGS information. For example, where the GGS comprises different tiers of government, such as central, state, and local governments, the IPSASB should consider whether a disaggregation of the GGS of those tiers should be provided. The IPSASB should also consider what prominence GGS financial information should be given in the GPFs, and whether the GGS information should be prepared on the basis of IPSAS principles or <i>GFSM 2001</i> principles.</p> <p>In relation to GGS information, it is recommended that “Investment in controlled entities in other sectors” is treated on a “partial consolidation” basis and disclosed and measured at the government’s proportional interest in the net assets of the other sectors (rather than fair value, equity accounting or some other basis). (This would align with <i>GFSM 2001</i> to the extent that the net assets of the other sectors is accepted by <i>GFSM 2001</i> as the market value of those other sectors – see Issue 2.2).</p> <p>In reaching this recommendation WGI considered the following questions:</p> <ul style="list-style-type: none"> • Is a GGS for a particular jurisdiction as defined by the 1993 SNA/<i>GFSM 2001</i>, and which therefore excludes non-resident entities from its scope, an entity for which a GPFs could be prepared?

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Category and Issue	Treatment in IPSASs as of June 30, 2004 (or in IASs/IFRSs where no IPSAS is in place)	Treatment in <i>GFSM 2001</i>	Treatment in <i>ESA95/ EMGDD/ SNA</i>	Working Group I Recommendations
	All IPSASs on issue are identified in Appendix 2			<ul style="list-style-type: none"> • If a GPFS could be prepared for a GGS, should it be exempted from fully consolidating all controlled (resident or non-resident) entities? • If it were to be exempted from full consolidation, how should “investments in controlled entities in other sectors” be measured (initially recognized amount, fair value, proportion of recognized net assets of the investee, equity accounting, some other basis)? • Should the GGS GPFSs be prepared on the basis of IPSAS principles or <i>GFSM 2001</i> principles in relation to the other issues identified in this Matrix and, if in accordance with <i>GFSM 2001</i>, can the financial statements be issued as being “in accordance with IPSASs”? • How should other sectors/subsectors of the public sector be treated?
1.2 Reporting component sectors of the public sector, particularly the general government sector (GGS)	1.2 IPSASs do not define a “sector”.	1.2 The total economy of a country can be divided into <u>sectors</u> . A sector is a group of institutional units that are <u>resident</u> in the economy. The 5 sectors are: general government, nonfinancial corporations, financial corporations, non-profit institutions serving households, and households. The public sector (for the whole economy or a particular government’s jurisdiction) consists of the GGS, public nonfinancial corporations (PNFC) and financial corporations (PFC) subsectors. The GGS and PNFCs can be consolidated to get the nonfinancial public sector. (<i>GFSM 2001</i> Chapter 2)	1.2 Same as <i>GFSM 2001</i> . However, ESA95 has developed some rules, for example, for identifying public corporations	Option for Convergence (for the IPSASB and ISWGNA) In relation to the more general question of the scope of the entity, it is recommended that IPSASB and Inter-Secretariat Working Group on National Accounts (ISWGNA) consider developing common tests of control with a view to deriving a common view on what is included in the public sector and the GGS. This work could link to any work undertaken by the IASB on control.
1.3 Accounting for controlled entities	1.3 In IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities” (issued May 2000), <u>Consolidated Financial Statements</u> are “the financial statements of an economic entity presented as those of a single entity”. (IPSAS Glossary of Defined Terms) With limited exceptions, a controlling entity is required to present consolidated financial statements which consolidate all controlled entities (foreign and domestic). Exceptions include where control is temporary, the controlled entity operates under severe long term restrictions which preclude it from benefiting the controlling entity, and the controlling entity is wholly owned and there are no users for its consolidated financial statements. (IPSAS 6, paras 16 and 22) To present consolidated financial statements, the financial statements of the controlling entity and its controlled entities are combined on a line-by-line basis by adding together like items of assets, liabilities, net	1.3 Consolidation involves the elimination of all transactions and debtor-creditor relationships that occur among the units being consolidated. (<i>GFSM 2001</i> paras 3.91-3.94) In the GGS’s financial statements the investment in controlled entities in other sectors should be valued at the current prices of the shares on stock exchanges for traded shares. For equity held in public corporations with untraded shares or quasi-corporations it is equal to the total value of a corporation’s and quasi-corporation’s assets less the total value of its other liabilities (<i>GFSM 2001</i> para 7.119)	1.3 The principles of consolidation are not used in the SNA. However, consolidated accounts may be built up for complementary presentations and analyses.	Option for Convergence (for ESA95 and <i>GFSM 2001</i>) It is recommended that ESA95 and <i>GFSM 2001</i> guidance on how the general government boundary is defined is aligned. It would also be useful to agree on principles for allocation between central government, state government, and local government/public corporations. Link to Working Group II of the Task Force on Harmonization of Public Sector Accounting (TFHPSA) (WGII): In relation to the boundary of the GGS and the public sector, WGII is considering issues relating to the demarcation between GGS and other public sector entities and between the public sector and the private sector (WGII Topic 4). In considering these issues, it is recommended that WGII has regard to the generally accepted accounting principles (GAAP) notion of control. In relation to the measurement of “investments in controlled entities”, WGII is considering issues relating to adopting the accrual of earnings approach (“reinvested earnings” and dividends) for accounting for such investments (WGII Topic 1). This approach broadly equates to the equity method.

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	<p>assets/equity, revenue and expenses. Balances and transactions between entities within the economic entity and resulting unrealized gains are eliminated in full. Unrealized losses resulting from transactions within the economic entity should also be eliminated unless cost cannot be recovered. (IPSAS 6 paras 39-52)</p> <p>In the controlling entity's separate financial statements a controlled entity is accounted for either by the equity method, or as an investment. (IPSAS 6 para 53)</p>			

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2: OUTSIDE OWNERSHIP RELATIONSHIPS	The relevant IPSASs are IPSAS 1 “Presentation of Financial Statements” and IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities” (both issued May 2000).			
2.1 Outside equity interest	<p>Minority interest is “that part of the net surplus (deficit) and of net assets/equity of a controlled entity attributable to interests which are not owned, directly or indirectly through controlled entities, by the controlling entity.” (IPSAS Glossary of Defined Terms) They are presented separately from liabilities and, in the consolidated financial statements of the controlling entity, from the controlling entity’s net assets/equity (IPSAS 6 para 50).</p> <p>Disclosure requirements for minority interest in the consolidated financial statements of the controlling entity include the disclosure of minority interest in net assets/equity on the face of the statement of financial position as an item of net assets/equity. Minority interests in net assets/equity consist of the amount of the minority interest at the date of the original combination, and the minority’s share of movements in net/assets equity since that date. In addition, the minority interest share of the net surplus or deficit for the period is disclosed on the face of the statement of financial performance. (IPSAS 1 paras 39 (c), 89 and 101)</p> <p>In the separate financial statements of the individual entity in which there is an outside equity interest, minority interests are recognized in the same way as the equity interests of the controlling entity – as net assets/equity.</p>	<p>For public sector corporations, outside equity interests are recorded in the same way as the equity interests of general government. They are recorded as a liability of the corporation under "shares and other equity". They are valued at their current prices on stock exchanges or other organized financial markets. Equity in public corporations with untraded shares and all quasi-corporations is equal to the total value of the corporation’s or quasi-corporation’s assets less the total value of its other liabilities. (<i>GFSM 2001</i> 7.117 –119)</p> <p><i>GFSM 2001</i> adopts what is commonly referred to as an entity view.</p> <p>There are no fully consolidated accounts prepared by the general government (the controlling entity). For the total public sector, the outside equity interest (i.e. that held by the private sector) would be shown as a liability (being shares and other equity) of the total public sector.</p>	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that the difference is disclosed as a reconciling difference (because <i>GFSM 2001</i> recognizes outside equity interest as a liability at market value; whereas IPSASs recognize it as net assets/equity).</p> <p>Link to WGII: WGII (Topic 1) Government transactions with public corporations.</p>
2.2 Determination of: • net worth/net assets/equity; and • contributions from owners, for commercial government operations	<p>Net assets/equity is “the residual interest in the assets of the entity after deducting all its liabilities” (IPSAS Glossary of Defined Terms).</p> <p>Net worth is not defined in IPSASs.</p> <p>Contributions from owners are “future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which: (a) conveys entitlement both to distributions of future</p>	<p>Net worth equals total assets minus total liabilities. For public corporations total liabilities includes shares and other equity. (<i>GFSM 2001</i> para 4.52)</p> <p>Contributions from owners may be by way of (1) acquisition of publicly traded shares, (2) additions to the funds and other resources of quasi-corporations, including in-kind transfers of non-financial assets (treated as purchases of shares and other equities by the owner of the quasi-corporation), (3) regular transfers to quasi-corporations to cover persistent operating deficits (treated as subsidies), (4) advance of funds to create a</p>	<i>ESA95 Manual on government deficit and debt (EMGDD)</i> provides rulings on the treatment of capital injections.	<p>Option for Convergence: It is recommended that:</p> <ul style="list-style-type: none"> • The difference is disclosed as a reconciling difference (because there is a potential difference between IPSAS net assets/equity and GFS net worth in the PNFC and PFC sectors. <i>GFSM 2001</i> treats shares/contributed capital as a liability, and measures [and remeasures] it at current value [determined as assets less liabilities for unlisted entities and at market value of shares for listed entities. Therefore there may be a negative net worth. However, GAAP treats shares/contributed capital as equity and measures it at its originally recognized amount (that is, it is not subject to remeasurement); and

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	<p>economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or</p> <p>(b) can be sold, exchanged, transferred or redeemed.” (IPSAS Glossary of Defined Terms)</p> <p>The Invitation to Comment (ITC) “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)” (issued January 2004 by the PSC (now IPSASB)) for comment by June 30, 2004) notes the significance of distinguishing revenue from contributions from owners. It proposes that controlling entities should formally designate whether contributions to controlled entities are contributions from owners (ITC para 2.6)</p>	<p>new enterprise (treated as purchase of equity) (<i>GFSM 2001</i> paras 9.35-9.37)</p>		<ul style="list-style-type: none"> • <i>GFSM 2001</i> and IPSASs align their guidance on when an item is a contribution from owners rather than revenue. <p>Link to other issues: Issue 2.1, because net worth effectively includes any outside equity interests. Issue 6.1(a) re debt assumption, in relation to determining whether an item is a contribution from owners or revenue.</p> <p>Issue 9.1 re liability concept, in respect of determining whether contributions by owners gives rise to a liability.</p> <p>Issue 9.9 re net worth terminology.</p>
2.3				
(a) Distributions payable to owners as holders of equity instruments	<p>The relevant IPSASs are IPSAS 9 “Revenue from Exchange Transactions” (issued July 2001), and IPSAS 15, “Financial Instruments: Disclosure and Presentation” (issued December 2001). IPSASs do not include specific requirements on accounting for a return of capital.</p>	<p>(a) & (b) When distributions are made by public corporations, it can be difficult to decide whether they are dividends or withdrawals of equity. Distributions to owners may be by way of (1) dividends or withdrawals of income from quasi-corporations or (2) withdrawals of equity. Dividends are distributions a corporation makes out of its current income, which is derived from ongoing productive activities. Dividends are recorded as an expense of the public corporation. Distributions of proceeds from privatization receipts and other sales of assets (<i>GFSM 2001</i> para 9.38) and large and exceptional one-off payments based on accumulated reserves or holding gains are withdrawals of equity rather than dividends. (<i>GFSM 2001</i> para 5.87)</p>	<p>(a) & (b) EMGDD provides rulings on the treatment of dividends.</p>	<p>It is relevant to note that the GAAP treatment of dividends is consistent with the GAAP treatment of outside equity interests, and the <i>GFSM 2001</i> treatment of dividends is consistent with the <i>GFSM 2001</i> treatment of outside equity interests and calculation of net worth.</p>
(b) Distributions receivable from controlled entities.	<p>(a) Dividends to holders of financial instruments classified as equity instruments are debited by the issuer directly to net assets/equity (that is, as an allocation of surplus, not as an expense). (IPSAS 15, para 36). Dividends are recognized as payable if they are proposed or declared before the reporting date (IPSAS 14 “Events After the Reporting Date” (issued December 2001), para 13)</p> <p>(b) IPSAS 9 requires that dividends be recognized as revenue when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity and when the amount of the revenue can be measured reliably (IPSAS 9, para 33). Dividends are recognized as receivable when the shareholder’s or equity’s right to receive payment is established. (IPSAS 9, para 34)</p>	<p>Dividends are recorded as revenue either on the date they are declared payable or, if no prior declaration occurs, on the date payment is made. (<i>GFSM 2001</i> para 5.85) Withdrawals from income of quasi-corporations are conceptually equivalent to dividends and are treated the same way. Because quasi-corporations cannot declare dividends, all such withdrawals are recorded on the date payment actually occurs.</p>		<p>Option for Convergence: (a) It is relevant to note that this issue is to be addressed by WGII. Depending on the outcome of WGII deliberations, if <i>GFSM 2001</i> continues to expense dividends (as clarified by WGII), it is recommended that the difference is disclosed as a reconciling difference because it is likely that IPSASs will continue to treat them as a direct reduction of net assets/equity. In addition, the amounts of dividends recognized and the timing of their recognition may be different under <i>GFSM 2001</i> and IPSASs.</p> <p>(b) The difference may continue to exist and therefore it is recommended that it be disclosed as a reconciling difference (to the extent that <i>GFSM 2001</i> recognises a return of capital that IPSASs would treat as a dividend, or vice versa). It is also recommended that IPSASB consider developing guidance on distinguishing dividends from return of contributed capital and in so doing consider the <i>GFSM 2001</i> principles for distinguishing between dividends and withdrawal of equity. (However, it is relevant to note that return of contributed capital is a narrower notion than withdrawal of equity).</p> <p>In relation to any developments in performance reporting (see Category 8), <i>GFSM 2001</i> would, and IPSASB is likely to, regard dividends from controlled entities as a transaction (revenue). Therefore no difference arises.</p>

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	All IPSASs on issue are identified in Appendix 2			<p>Link to WGII WGII is considering issues relating to accounting for the earnings of controlled entities (“reinvested earnings” and dividends) (WGII Topic 1).</p> <p>Link to other issues: Issue 5.6 re investment in associates. Category 8.4 re performance reporting.</p>

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3: RECOGNITION OF ASSETS (OTHER THAN FINANCIAL INSTRUMENTS)	<p>IPSASs define assets and expenses as follows:</p> <p>Assets are “resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow”.</p> <p>Expenses are “decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners”. (IPSAS Glossary of Defined Terms)</p> <p>Recognition criteria in IPSAS 16 “Investment Property” and IPSAS 17 “Property, Plant and Equipment” (both issued December 2001) require recognition of an asset when and only when:</p> <ul style="list-style-type: none"> • It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and • The cost or fair value of the asset to the entity can be measured reliably. <p>(IPSAS 16 para 19, and IPSAS 17 para 13).</p> <p>The application of the hierarchy of authoritative requirements and guidance in IPSAS 1 “Presentation of Financial Statements” (the IPSAS hierarchy), means that in the absence of specific recognition criteria these will become general asset recognition criteria under IPSASs.</p>	<p><i>GFSM 2001</i> para 7.4: All assets recorded in the GFS system are economic assets, which are entities over which ownership rights are enforced by institutional units and from which economic benefits may be derived by their owners by holding them or using them over a period of time. Paragraph 6.1 defines expense as a decrease in net worth resulting from a transaction (which is defined under Issue 8.1 in this Matrix).</p>	<p>Same as <i>GFSM 2001</i>, but ESA95 does not adopt the term “expense” (although it follows the same principles by adopting the word “use”, e.g. use of goods and services, use of assets).</p>	
<p>3.1 Costs associated with: (a) Research and development (b) Other intangible assets (i) computer software (ii) other classes</p>	<p>(a) and (b) There is no IPSAS dealing specifically with research and development expenditure and other intangible assets. .</p> <p>The relevant IASB standard is IAS 38 “Intangible Assets” (issued March 2004). IAS 38 requires that all costs on research be recognized as an expense when incurred, and requires certain development costs to be recognized as an asset under certain circumstances. (IAS 38 paras 54 to 64)</p> <p>IAS 38 requires that costs initially incurred to acquire or develop an intangible asset and those incurred subsequently to add to, replace or service it be recognized as an asset only if the intangible item (i)</p>	<p>(a) Goods and services used for research and development are treated as use of goods and services, i.e. as an expense, rather than as acquisitions of intangible fixed assets even though some of them may bring benefits for more than one year. (<i>GFSM 2001</i> para 6.24)</p> <p>(b) Intangible fixed assets consist of mineral exploration; computer software; entertainment, literary, and artistic originals; and miscellaneous other intangible assets. To qualify as a fixed asset, the item must be intended for use in production for more than one year and its use must be restricted to the units that have established ownership rights over it or to units licensed by the owner. Outlays on research and development, staff training, market research, and similar activities are treated as expense.</p>	<p>Same as <i>GFSM 2001</i>.</p>	<p>It is relevant to note that OECD Canberra II Group is considering topics relevant to Issue 3.1 (see, for example, Topics 9, 12, 22 and 29 in Appendix 1). OECD Canberra II Group might conclude that instead of expensing all R&D, more (if not all) R&D should be capitalised.</p> <p>Option for Convergence: (a) & (b) It is recommended that:</p> <ul style="list-style-type: none"> • IPSASB consider the appropriateness of IAS 38 for the public sector; • OECD Canberra II Group work with the IASB; and • ISWGNA and IPSASB consider adopting the same recognition criteria for intangible assets. <p>To the extent that the difference continues to exist (due to the differences in recognition criteria), it is recommended that it is disclosed as a reconciling difference (this would occur to the extent that <i>GFSM 2001</i></p>

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3.4 Public private partnerships (such as BOOT schemes)	<p>All IPSASs on issue are identified in Appendix 2</p> <p>There is no IPSAS dealing specifically with these arrangements.</p> <p>The IASB's International Financial Reporting Interpretations Committee (IFRIC) is developing Interpretations on Service Concessions, for issue in the first half of 2005. IFRIC is considering a number of accounting models that include: the physical asset/operating lease model (the operator recognises the physical infrastructure asset as operating lease prepayment); the receivable model (the operator recognises a receivable for services provided); and the intangible asset model (the operator provides services e.g. construction, maintenance in exchange for an intangible asset, such as a licence or right to charge).</p>	<p><i>GFSM 2001</i> does not prescribe treatment for these schemes. First principles need to be applied to the contract arrangements.</p>	<p><i>EMGDD</i> provides rulings on the treatment of public private partnerships. These were revised by a Eurostat Task Force in February 2004. UK has accounting guidelines for public private initiatives and the statisticians follow these guidelines.</p>	<p>Option for Convergence: There is currently debate, in both the statistical and accounting professions, on how to treat public private partnerships. It is recommended that the IFRIC Service Concessions project and any related IASB projects on leasing are monitored. When IPSASB comes to address the issues, it is recommended that OECD Canberra II Group, WGII, IMF and IPSASB work jointly, and monitor IASB developments.</p> <p>Link to WGII WGII (Topic 4).</p> <p>OECD Canberra II Group will consider this issue (see Topic 24 in Appendix 1).</p>

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4: COUNTER PARTY /SYMMETRY AND RECOGNITION				
4.1 Provisions arising from constructive obligations	<p>See Category 3 above for IPSAS requirements for recognition of assets.</p> <p>The relevant IPSAS is IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets” (issued October 2002).</p> <p>Also relevant is the ITC “Accounting for Social Policies of Governments” (issued January 2004 by the PSC (now IPSASB)) for comment June 30, 2004).</p> <p>Provisions are “liabilities of uncertain timing or amount”. Liabilities are “present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.” (IPSAS Glossary of Defined Terms)</p> <p>A provision is recognized when: (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. (IPSAS 19 para 22)</p> <p>A constructive obligation is an obligation that derives from an entity’s actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.</p> <p>A legal obligation is an obligation that derives from (a) a contract (through its explicit or implicit terms); (b) legislation; or (c) other operation of law. (IPSAS Glossary of Defined Terms)</p>	<p>Constructive obligations are not recognized in the GFS system as they are not economic assets in the books of the counterparty. Accordingly, provisions arising out of constructive obligations are not recognized, and consequently not defined, in the GFS system. (See <i>Glossary</i> for definitions of assets and liabilities).</p> <p>Contingent assets and liabilities are only recorded as memorandum items in the GFS system.</p> <p>A liability is a counterpart to a financial claim. It is an obligation to provide economic benefits to the unit holding the corresponding financial claim. When a financial claim is created, a liability of equal value is simultaneously incurred by the debtor as the counterpart of the financial asset.</p>	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that:</p> <ul style="list-style-type: none"> • IPSASB progress the ITC “Accounting for Social Policies of Governments” and issue an IPSAS; and • IMF consider the IPSAS to be developed by IPSASB. <p>Although there may be some areas where there is no difference between GAAP and <i>GFSM 2001</i>, in other circumstances it is recommended that the difference is disclosed as a reconciling item (because <i>GFSM 2001</i> typically does not recognize a liability or an expense until a constructive obligation becomes a legal obligation; whereas IPSAS 19 could give rise to the recognition of a liability and expense before it becomes a legal obligation).</p> <p>Link to WGII: WGII (Topic 5) Contingent assets/guarantees/provisions/constructive obligations.</p>

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	<p style="text-align: center;">All IPSASs on issue are identified in Appendix 2</p> <p>An obligation always involves another party to whom the obligation is owed. However, it is not necessary, to know the identity of the other party – the other party may be the public at large. (IPSAS 19 para 28) Whether or not the other party recognizes an asset is determined by the asset recognition criteria (see Category 3 above).</p> <p>IPSAS 19 requires that provisions be measured at “the best estimate of expenditure required to settle the present obligation at the reporting date” – That is, the amount the entity would rationally pay to settle the obligation at reporting date or to transfer it to a third party. (IPSAS 19 paras 44-49)</p>			
4.2 Decommissioning/ restoration costs	<p>IPSAS 19 provides that restoration costs give rise to the recognition of a liability in certain circumstances. They may also be included as part of the cost of an asset in accordance with IPSAS 17 “Property, Plant and Equipment” (issued December 2001). (IPSAS 19 paras 22 and 27, Appendix C example 3. IPSAS 17 para 26(e))</p> <p>The relevant IASB authority is IFRIC Interpretation 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities” (issued May 2004), which deals with changes in estimates of the cost of restoration /decommissioning/etc, changes in market based discount rates and the unwinding of the discount rate. In broad terms, it requires adjustment of the carrying amount of the asset if the cost basis is used, and adjustment of the revaluation surplus/deficit if the revaluation model is adopted.</p>	<p>There is no specific guidance in <i>GFSM 2001</i> and therefore different interpretations are possible. Arguably they could include treating decommissioning/restoration costs as an offset to the asset (and possibly, if the amount of the offset exceeds the gross asset, a negative asset).</p>	<p>1993 SNA makes no recommendations on the treatment of these costs.</p>	<p>Option for Convergence: It is recommended that any difference is disclosed as a reconciling item, particularly in relation to: (a) IPSASs separately recognizing a liability that <i>GFSM 2001</i> treats as an offset to the related asset (potentially giving rise to a negative asset. [It is recommended that OECD Canberra II Group consider the notion of a “negative asset”.]) (b) Depreciation of the asset, because it may be higher under IPSAS. (c) Treatment of any remeasurement of the IPSAS liability.</p> <p>Link to WGII OECD Canberra II Group (see Topic 14 in Appendix 1).</p>
4.3 Tax effect accounting	<p>There is no IPSAS dealing with tax effect accounting.</p> <p>The relevant IASB standard is IAS 12 “Income Taxes” (issued March 2004). In broad terms, IAS 12 requires a taxpayer entity to recognise, with limited exceptions:</p> <ul style="list-style-type: none"> • current tax assets and liabilities for amounts over-paid or under-paid in respect of the amount of current tax for the current and prior periods; • deferred tax assets and liabilities in respect of differences between the tax base and carrying amount of an asset or liability; and • when future profits are probable, unused tax losses as deferred tax assets. 	<p><i>GFSM 2001</i> would not recognize a deferred tax asset or liability.</p>	<p>Same as <i>GFSM 2001</i>.</p>	<p>Option for Convergence: It is recommended that:</p> <ul style="list-style-type: none"> • IPSASB consider IAS 12, particularly in relation to income tax equivalents, from a taxpayer perspective; and • the issue is considered by WGII (Topic 3) (including whether deferred tax assets relating to carry forward tax losses should be recognized). <p>It is recommended that any unresolved issues are disclosed as reconciling items (this will arise to the extent that, if IPSASB were to adopt IAS 12 for income tax equivalents, a taxpayer [potentially a PFC or PNFC] would recognize a deferred tax asset or liability [that <i>GFSM 2001</i> would not recognize], and the tax collector [GGS] would not recognize the related deferred tax liability or asset under GAAP or <i>GFSM 2001</i>).</p>

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				Link to other issues: Issue 10.15 re time of recording of tax revenue, which considers the treatment of tax from the tax collector perspective (as distinct from the taxpayer perspective).
4.4 Employee stock options (ESOs)	<p>There is no IPSAS dealing with employee stock options.</p> <p>The relevant IASB standard is International Financial Reporting Standard IFRS 2 “Share-based Payment” (issued February 2004). IFRS 2 is applicable to all equity-settled share-based payments and all cash-settled share-based payments and transactions in which the entity receives or acquires goods or services and settlement is either by cash or issue of equity instrument.</p>	No specific guidance is provided in <i>GFSM 2001</i> but it would align with 1993 SNA. These stock options would be expensed but the time of recording is uncertain.	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is relevant to note that this is unlikely to be a significant issue in a public sector context because stock options are not typically used as a form of employee compensation.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> • AEG consider IFRS 2; and • EDG (Topic 1), AEG (Topic 3) [see Appendix 1] and IPSASB work jointly on the issues <p><i>AEG progress to date:</i> The AEG voted on this issue at the February 2004 meeting. ESOs are to be recorded as compensation of employees, spreading the value of ESOs between the granting and vesting dates if possible, and valuing them at market prices. Further consultation is to occur.</p>

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	All IPSASs on issue are identified in Appendix 2			
5: MEASUREMENT OF ASSETS, LIABILITIES AND NET ASSETS/ EQUITY	<p>A number of IPSASs specify measurement requirements, as indicated in the following:</p> <p>IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities” (issued May 2000 - see Issue 1.1 above).</p> <p>IPSAS 7 “Accounting for Investments in Associates” (issued May 2000 - see Issue 5.6 below).</p> <p>IPSAS 8 “Financial Reporting of Interests in Joint Ventures” (issued May 2000) requires the investor to account for jointly controlled entities by either the proportional consolidation or equity accounting method in consolidated financial statements. In the financial statements of the investor (other than consolidated financial statements), an investment in a jointly controlled entity is accounted for either by the equity method, or as an investment (IPSAS 8 paras 36, 43, 54 and 55)</p> <p>IPSAS 12 “Inventories” (issued June 2001 - see Issue 5.5 below).</p> <p>IPSAS 13 “Leases” (issued December 2001) requires lessees to recognise assets and liabilities that arise under finance leases at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, the present value of the minimum lease payments. Lease payments are allocated between interest and reduction of the liability and the asset is depreciated. (IPSAS 13 paras 20, 26 and 28)</p> <p>IPSAS 15 “Financial Instruments: Disclosure and Presentation” (issued December 2001). requires an entity to disclose for each class of financial asset and financial liability information about fair value. (IPSAS 15 para 84)</p> <p>IPSAS 16 “Investment Property” (issued December 2001) and IPSAS 17 “Property, Plant and Equipment” (issued December 2001) allow measurement at historical cost or fair value.</p> <p>Fair value is “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction”. (IPSAS Glossary of Defined Terms.) Initial measurement of an</p>	<p>All flows and stocks should be valued at the amounts for which goods, assets other than cash, services, labor, or the provision of capital are in fact exchanged or could be exchanged for cash. These values are referred to as current market prices or values. (<i>GFSM 2001</i> para 3.73)</p> <p>In the case of transactions that are clearly not at market value, e.g., less than market value, the transaction should be divided into an exchange at market value and a transfer equal in value to the difference between the actual transaction value and the market value. (<i>GFSM 2001</i> para 3.9)</p> <p>Assets that occur naturally other than cultivated assets (including noncultivated biological assets, water resources, and the electromagnetic spectrum) are usually valued at the net present value of expected future returns. (<i>GFSM 2001</i> paras 7.75 - 7.77)</p>	<p>Same as <i>GFSM 2001</i>.</p>	<p>It is relevant to note that, in concept, the notions of fair value (and the hierarchy for determining fair value described in IPSASs) and current market values are similar.</p> <p>Option for Convergence: As a general recommendation, it is suggested that regard is had to the standard setting work of the International Valuation Standards Committee (IVSC), to the extent it addresses issues relevant to the measurement of public sector assets, particularly in relation to non cash-generating assets.</p> <p>It is also recommended that:</p> <ul style="list-style-type: none"> • SNA acknowledge that there may not be a market value for many public sector assets. This may entail drawing the alternative valuation guidance together and linking it to both the IVSC work and also IPSASB work on impairment; • IPSASB consider limiting the circumstances under which an option of historical cost should be available; and • OECD Canberra II Group (which is considering measurement of non-financial assets) consider IPSASs and the work of the IVSC. <p>In relation to the measurement of financial instruments, it is recommended that IPSASB consider adopting the requirements of IAS 39 in the context of <i>GAAP/GFSM 2001</i> convergence. Until it considers IAS 39, it is recommended that IPSASB consider making it clear that the effect of its hierarchy in IPSAS 1 is that IAS 39 is applicable. It is relevant to note that this approach would have the effect of retaining the options in IAS 39 for the public sector – including the option in certain circumstances to measure financial instruments at fair value through the statement of financial performance (although see the last paragraph in the introductory comments in the second column of category 5 of this Matrix) thereby facilitating convergence with the <i>GFSM 2001</i> current market price or value measurement requirement.</p> <p>Link to other issues Issue 9.2 re definition of current value</p>

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	<p style="text-align: center;">All IPSASs on issue are identified in Appendix 2</p> <p>investment property or an item of property, plant and equipment acquired at no cost, or for a nominal cost, (including donated assets) is its fair value as at the date of acquisition. (IPSAS 16, para 23 & IPSAS 17, para 23)</p> <p>IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets” (issued October 2002) requires that “The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date.” (IPSAS 19 para 44)</p> <p>There is no separate IPSAS on the measurement and recognition of financial instruments in general. The relevant IASB standard is IAS 39 “Financial Instruments Recognition and Measurement” (issued March 2004). In broad terms, IAS 39 requires a financial asset or financial liability to be initially measured at fair value and subsequently:</p> <ul style="list-style-type: none"> • For assets, at fair value with changes in fair value recognized through profit/loss to the extent that they are (i) held for trading, or (ii) upon initial recognition designated as “a financial asset or financial liability at fair value through profit or loss”. (IAS 39 paras 43 and 46); and • For liabilities, at amortized cost or fair value through the profit and loss with certain exceptions (for example (a) derivative liabilities that must be settled in unquoted equity security for which fair value cannot be determined, which must be measured at cost; and (b) liabilities that arise when a transfer of a financial asset does not qualify for derecognition, in which case the entity recognizes a liability for any consideration received or to reflect the entity’s continuing rights and obligations in the transferred assets. (IAS 39 para 47) <p>Under IAS 39, financial assets that are:</p> <ol style="list-style-type: none"> 1. loans, receivables and held to maturity investments not measured at fair value are all measured at amortized cost using the effective interest rate method; 2. unquoted equity securities, the fair value of which cannot be reliably measured, and derivatives whose value is related to these unquoted securities and which must be settled by delivery of these unquoted securities, are measured at cost. (IAS 39 para 46) 			

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	The IASB issued an ED (April 2004) that proposes restricting the types of financial instruments that may be designated as at fair value through the profit and loss. These include, for example unquoted equities whose fair value cannot be reliably determined, financial assets and liabilities whose fair value cannot be reliably determined, and liabilities that are loans and receivables. This area is still evolving.			
5.1 Impaired non-financial assets	There is no IPSAS dealing with impairment of non-financial assets in general. IPSASB has considered comments on ED 23 “Impairment of Assets” and is finalizing an IPSAS on this matter. IAS 36 “Impairment of Assets” includes requirements for the testing and recognition of impairment of assets of profit seeking entities.	In relation to performance reporting, impairment of assets would be treated as an other economic flow – most likely as a volume change. (<i>GFSM 2001</i> paras 10.28-10.53)	Same as <i>GFSM 2001</i> , although the UK Office of National Statistics (ONS) regards impairment as extra capital consumption.	Option for Convergence: It is recommended that any action awaits the IPSAS to be developed from IPSAS ED 23.
5.2 Transaction costs: (a) costs of issuing equity instruments	(a) Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IAS 32 “Financial Instruments: Disclosure and Presentation” (issued March 2004). Costs of an equity transaction (other than when related to acquisition of a business) are accounted for as a direct deduction from equity. (IAS 32 para 35)	(a) Transactions costs are called costs of ownership transfer in the <i>GFSM 2001</i> . They are expensed for financial assets and liabilities. They are excluded from the current market value of the related item as counterpart financial assets and liabilities refer to the same financial instrument and should have the same value. (<i>GFSM 2001</i> paras 7.22, 8.6 and 9.7)	(a) Same as <i>GFSM 2001</i> .	Option for Convergence: (a) It is recommended that IPSASB consider how transaction costs arising on the issue of equity instruments should be treated. Depending on the outcome, disclosure of a reconciling item may be necessary (to the extent that transaction costs are deducted directly from equity under GAAP and expensed under <i>GFSM 2001</i>).
(b) determination of carrying amount – costs of disposing of non-financial assets	(b) See the introductory comments to category 5 above for measurement of property, plant and equipment, investment property, and leases – generally the carrying amount of these assets is not determined net of the costs that might be incurred if they were sold. See Issue 5.5 below for inventories held for sale and for distribution, and Issue 5.8 for biological assets. See also: <ul style="list-style-type: none"> • IAS 38 “Intangible Assets” (issued March 2004), which requires cost or fair value subject to certain conditions (IAS 38 para 24, 74 and 75); • IAS 41 “Agriculture” (issued March 2004), which requires biological assets to be measured at fair value less point of sale costs (IAS 41 para 12); and • IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” (issued March 2004), which requires that assets held for sale be measured at lower of carrying amount and fair value less cost to sell. (IFRS 5 para 15) 	(b) Costs of ownership transfer (COT) on disposal are capitalised (transaction in nonfinancial assets) as they occur and immediately written-off as a loss (other economic flow) on disposal. The balance sheet value of the asset immediately before the disposal (and incurrence of any COT associated with the disposal) was the exchange value of the asset plus any COT that would have had to be incurred to acquire the asset at that time and in its existing condition. The difference between the balance sheet value and the disposal value (exchange value less COT on disposal) is the sum of the two types of COT. To bridge this difference, a holding loss is recorded, as an other economic flow, at time of disposal. (<i>GFSM 2001</i> para 10.27)	(b) Same as <i>GFSM 2001</i> .	(b) & (c) It is recommended that IPSASB consider adopting the requirements of IAS 39 (see the comments above in this column in the introduction to category 5), IAS 41 and IFRS 5. Depending on the outcome of IPSASB’s consideration, disclosure of a reconciling item may be necessary, although it is likely to be insignificant. Link to ISWGNA/AEG OECD Canberra II Group is examining issues relating to COT (AEG Topic 14). The issues that had been agreed at its October 2003 meeting and which were subsequently agreed to by the AEG in November 2003 were that: (i) COT should continue to be recorded as fixed capital formation; and (ii) COT on acquisition should be written off over the period the owner expects to hold the asset and not the whole life of the asset. Issues still being discussed relating to COT: (iii) the treatment of COT on disposal of an asset; (iv) the treatment of installation and de-installation costs and transportation costs; and (v) the treatment of terminal costs such as decommissioning costs for nuclear power stations and oil rigs.

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(c) determination of carrying amount – costs of disposing of financial assets	(c) Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IAS 39, which provides that financial assets held for trading and otherwise designated as “at fair value” are measured at fair value without deduction of transaction costs it may incur on sale or disposal. (IAS 39 para 46)	(c) See 5.2(a) above.	(c) Same as <i>GFSM 2001</i> .	Link to other issues: Issue 8.4(f) re treatment of point-of-sale costs in relation to biological assets. Issue 10.4 re borrowing costs.
5.3 Nonperforming loans	Requirements in existing IPSASs do not deal specifically with nonperforming loans. The relevant IASB standard is IAS 39, which requires an entity to assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence a loss is recognized in profit or loss when the instrument is impaired. (IAS 39 paras 58, 63, 67 and 68)	Loans are considered to be unimpaired unless there is absolute certainty that a loan is not going to be repaid under existing arrangements. Thus, loans remain on balance sheet until a debt cancellation, write-off, or write-down has taken place. (<i>GFSM 2001</i> Appendix 2)	<i>ESA95</i> is the same as <i>GFSM 2001</i> . The 1993 SNA does not allow a unilateral write-down of a partial value of a debt.	Option for Convergence: IMF is hosting an Electronic Discussion Group [EDG] (Topic 5) on nonperforming loans and it is recommended that it consider the requirements of IAS 39 (see the comments above in this column in the introduction to category 5). The moderator's report will feed to the AEG/ISWGNA. Link to other issues: Issue 8.4(l) bad and doubtful debts.
5.4 Low interest and interest free loans	Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IAS 39 which provides that the fair value of a long term loan that carries no interest can be estimated as the present value of all future cash receipts. The difference between the present value and the nominal amount is an expense or reduction in income (unless it qualifies for recognition as some other type of asset). (IAS 39 paras 43 and AG64)	Some transactions are a combination of an exchange and a transfer. The actual transaction should be partitioned into two transactions, one that is only an exchange and one that is only a transfer, to reflect the difference between the actual transaction value and the market value (<i>GFSM 2001</i> para 3.9). In the case of loans, <i>GFSM 2001</i> is silent. However, the general principles would suggest that it is appropriate to extend the example of sales at below market prices to financial transactions and partition when a government, as a matter of public policy, is providing assistance through its lending policies.	Same as <i>GFSM 2001</i> in principle, but practice probably varies.	Option for Convergence: It is recommended that the AEG and IPSASB consider each others' work. In so doing, it is recommended that: <ul style="list-style-type: none"> • IPSASB develop an IPSAS based on the ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)” (issued January 2004 by the PSC (now IPSASB)); and • IMF and ISWGNA consider partitioning loans, and consider adopting the ultimate IPSAS to be developed from the ITC.
5.5 Inventory	IPSAS 12 requires inventories to be measured at the lower of cost and net realisable value for inventories held for sale, and at the lower of cost and current replacement cost for inventories held for distribution in a non-exchange transaction. (IPSAS 12 paras 11 and 12)	Inventories should be valued at current market prices on the balance sheet date. Additions to inventories are recorded when products are purchased, produced, or otherwise acquired. Withdrawals from inventories are recorded when products are sold, used up in production, or otherwise relinquished. Additions to work in progress inventories are recorded continuously as work proceeds. All these additions and withdrawals to inventory are recorded as transactions in non-financial assets. Withdrawals are valued at current market prices prevailing at the time of the transaction rather than acquisition prices. Any change in the value of inventories	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that IPSASB consider requiring all inventory to be measured at current replacement cost when the entity regularly revalues P,P&E in accordance with the allowed alternative treatment in IPSAS 17. However, this would not be consistent with the requirements of the equivalent IFRS and would undermine the sector neutral principle. Therefore, it is also recommended that the change be effected through the IASB.

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	All IPSASs on issue are identified in Appendix 2	between the time of acquisition and withdrawal are recorded as holding gains or losses. (<i>GFSM 2001</i> paras 3.68 – 3.69, 7.58 – 7.65, 8.40 – 8.44)		
5.6 Investments in associates	<p>The relevant IPSAS is IPSAS 7 “Accounting for Investments in Associates” (issued May 2000).</p> <p>An associate is “an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor”. (IPSAS Glossary of Defined Terms)</p> <p>IPSAS 7 requires:</p> <ul style="list-style-type: none"> • Application of the equity method of accounting in consolidated financial statements except where the investment is acquired and held exclusively with a view to its disposal in the near future, in which case it should be accounted for under the cost method; and • In the financial statements of the investor (other than consolidated financial statements), an investment in an associate is accounted for either by the equity method or as an investment. However, if the investment is held for resale it is accounted for by either the cost method or as investment. (IPSAS 17 paras 18, 23-28) <p>The equity method requires that the investment is initially recorded at cost and the carrying amount is increased or decreased to recognize the investor’s share of net surpluses or deficits of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for alterations in the investor’s proportionate interest in the investee arising from changes in the investee’s equity that have not been included in the statement of financial performance. (IPSAS 7 para 11)</p>	Information from markets may be used to value similar securities, that are not traded, by analogy (<i>GFSM 2001</i> para 7.26). Other methods are to use net asset value or directors' valuation. (<i>GFSM 2001</i> para 7.26) Changes in market value of traded shares and changes in the investor's share of the corporation's net worth are recorded as other economic flows.	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that the difference is disclosed as a reconciling item (a reconciling item may arise particularly in relation to traded shares – <i>GFSM 2001</i> may accept equity accounting in relation to untraded shares). It is not expected that GAAP will align with <i>GFSM 2001</i> for some time, except to the extent that the equity accounting method provides the best estimate of market value for <i>GFSM 2001</i> purposes.</p> <p>It is relevant to note that, in relation to performance reporting, even if IPSASs were to adopt a transactions/other economic flows split, it is possible that dividends from associates would be classified as other economic flows (being effectively embedded in the income from associates) rather than as a transaction.</p> <p>There is also a possible reconciliation difference for the time of recording of income. IPSASs record income on an equity basis while under <i>GFSM 2001</i> revenue is recorded when the dividends are declared.</p> <p>Link to other issues: Categories 2 & 8 – in relation to dividends from associates (compared with income from associates).</p>
5.7 Measurement of investments in unquoted shares (entities that are not controlled or subject to significant influence)	Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IAS 39, which requires initial measurement at fair value plus transaction costs. Fair value is not required after initial measurement. (IAS 39 paras 43 and 46). See reference to IASB-ED in the introduction to category 5 above.	Information from markets may be used to value similar securities, that are not traded, by analogy. (<i>GFSM 2001</i> para 7.26) Other methods are to use net asset value or directors' valuation. (<i>GFSM 2001</i> para 7.26) Changes in market value of traded shares and changes in the investor's share of the corporation's net worth are recorded as other economic flows.	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that IPSASB consider adopting the requirements of IAS 39 (see the comments above in this column in the introduction to category 5). If IPSASB were to effectively adopt IAS 39 (whether through the hierarchy or directly) and entities elect to measure unquoted shares at fair value (because fair value can be reliably measured), there is in principle no difference between IPSASs and <i>GFSM 2001</i>.</p>

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	All IPSASs on issue are identified in Appendix 2			<p>Link to other issues: Issue 5.6 re investment in associates. Category 1 re accounting for controlled entities. Issue 8.4(e) re treatment of valuation changes. Issue 9.2 re current values.</p>
5.8 Biological assets (that is, living animals and plants)	<p>There is no IPSAS on recognition and measurement of biological assets. (For biological assets that are held as inventory see IPSAS 12.</p> <p>The relevant IASB standard is IAS 41. IAS 41 requires biological assets to be measured at fair value less point of sale costs unless fair value cannot be determined reliably. (IAS 41 para 12) The carrying amount of biological assets is required to be presented separately on the face of the balance sheet. (IAS 1 para 68)</p>	<p><i>GFSM 2001</i> distinguishes between produced and nonproduced assets. The 1993 SNA defines produced assets as nonfinancial assets that have come into existence as outputs from processes of production. Nonproduced assets are nonfinancial assets that have come into existence in ways other than through processes of production.</p> <p>Produced assets include cultivated assets. Cultivated assets include animals and plants used repeatedly or continuously for more than one year to produce other goods and services, which are treated as fixed assets. They also include plants and animals grown for single use, such as animals grown for slaughter and trees grown for timber, which are treated as inventories. Only animals and plants cultivated under the direct control, responsibility and management of general government units are fixed assets or inventories. Cultivated animals and plants classified as fixed assets are valued on the basis of current market prices for similar animals and plants of a given age. (<i>GFSM 2001</i> paras 7.48 – 7.50) Such information is less likely to be available for plants; more likely they will have to be valued at the written-down replacement cost. The value of cultivated animals and plants classified as inventories – work in progress may be estimated by discounting the future proceeds of selling the final product at current prices and the expenses of bringing the product to maturity. (<i>GFSM 2001</i> para 7.63)</p> <p>Nonproduced assets include noncultivated assets. Noncultivated assets include animals and plants that are subject to ownership rights that are enforced but whose natural growth and/or regeneration is not under the direct control, responsibility, and management of any unit. Noncultivated animals and plants are valued at the net present value of expected future returns. (<i>GFSM 2001</i> para 7.75)</p>	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that IPSASB consider adopting the requirements of IAS 41. It is relevant to note that a reconciling difference may continue to exist (to the extent that the measurement bases differ, in particular for plants that are measured under GAAP at fair value less point of sale costs and under <i>GFSM 2001</i> at written down replacement cost).</p> <p>Link to other issues: Issue 8.4(f) re cultivated assets – change in fair value. Issue 5.2(b) re transaction costs. Issue 5.5 re inventory – particularly in relation to “consumable” biological assets.</p>

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	All IPSASs on issue are identified in Appendix 2			
		Animals and plants that are neither cultivated or noncultivated are not economic assets. (<i>GFSM 2001</i> para 7.49)		
5.9 Extractive industries (exploration and evaluation)	<p>There is no IPSAS or IASB standard on extractive industries. As noted in Issue 3.2, IASB issued exposure draft ED 6 “Exploration for and Evaluation of Mineral Resources” in January 2004 for comment by April 16, 2004. It is anticipated to give rise to an IFRS in late 2004. Broadly, ED 6 proposes that an entity be allowed to either:</p> <ul style="list-style-type: none"> • Grandfather existing practice, which may involve capitalising costs in the exploration and evaluation stages of operations. However, certain costs including administration and other general overhead costs cannot be capitalised, and capitalised costs will be subject to impairment testing; or • In accordance with sources of authoritative requirements and guidance in paras 11 and 12 of IAS 8 (the “hierarchy”), develop an accounting policy which may result in exploration and evaluation costs incurred in the research stage being expensed. <p>IASB also has a longer term project to address accounting for extractive activities more comprehensively.</p>	For mineral exploration, the value of the resulting asset is measured by the value of the resources allocated to exploration as it is not possible to value the information obtained. The resources allocated include the costs of actual test drilling and boring, prelicense, license, acquisition and appraisal costs, costs of aerial and other surveys, and transportation and other costs incurred to make exploration possible. (<i>GFSM 2001</i> para 7.53)	Same as <i>GFSM 2001</i> .	<p>Options for Convergence: It is recommended that IASB developments are monitored. Because the IASB is developing an IFRS (in the short term, which is likely to be amended in the longer term), it is recommended that IPSASB consider whether to adopt it. During this process, it is recommended that consideration is given to whether the following issues give rise to GAAP/<i>GFSM 2001</i> differences:</p> <ul style="list-style-type: none"> • Definition/identification of inventory; • Absorption of exploration and evaluation costs into the cost of inventory; • Treatment of sale of inventory; • Site/field development and construction costs; • Depreciation/amortisation; and • Impairment. <p>It is relevant to note that OECD Canberra II Group is investigating mineral exploration expenditures and subsoil assets (sale of exploitation licences – see Topic 17 in Appendix 1). It is recommended that it consider the work of the IASB, and that the IASB consider its work.</p> <p>Link to other issues: Issue 3.2 re extractive industries (exploration and evaluation) and recognition of assets. Issue 4.2 re decommissioning/restoration costs.</p>
5.10 Extractive Industries (development and production)	<p>There is no IPSAS or IASB standard on extractive industries. See Issue 5.9 above.</p> <p>IFRS 3 “Business Combinations” (March 2004) requires the acquirer of an entity to recognize the identifiable assets of the acquired entity that satisfy recognition and measurement requirements – this may result in the inclusion of value of mineral reserves in any “mine properties” or similar asset recognized.</p>	<p>Subsoil assets are proven reserves of oil, natural gas, coal, and metallic and nonmetallic mineral reserves. Their discovery is recorded as an other volume change (<i>GFSM 2001</i> para 10.48) and their value is usually estimated as the present value of the expected net returns resulting from their commercial exploitation, but if ownership changes frequently on markets, then it may be possible to obtain appropriate market prices (<i>GFSM 2001</i> paras 7.73 & 7.74). Other units may extract the deposits over a specified period of time in return for a payment or series of payments. Leases of subsoil assets are treated as rent (<i>GFSM 2001</i> para 5.91) and depletion of these assets is treated as an other economic flow (<i>GFSM 2001</i> para 10.41).</p> <p>Under <i>GFSM 2001</i>, the nature of the contractual arrangements needs to be examined in order to determine the classification of any receipts and depletion of subsoil</p>	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that:</p> <ul style="list-style-type: none"> • Both IPSASB and OECD Canberra II Group consider the work of the IASB. (It is relevant to note that reconciliation will be necessary, to the extent that application of IPSASs results in non-recognition of sub-soil assets that are recognized under <i>GFSM 2001</i>); and • The IASB consider the work of OECD Canberra II Group in respect of mineral exploration expenditures and subsoil assets – sale of exploitation licences (see Topic 17 of Appendix 1). <p>Link to other issues: Issue 6.1 re financial instruments, to the extent that contractual arrangements associated with realising the economic benefits of mineral reserves may involve forward sale contracts that require or allow for cash settlement rather than physical delivery.</p>

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		assets. For example, is oil being extracted or have the subsoil assets been sold, i.e., a sale of a non-financial asset. (<i>GFSM 2001</i> paras 7.73-74)		

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6: FINANCIAL INSTRUMENTS				
6.1 Recognition and derecognition of financial instruments: (a) Debt assumption (b) Debt cancellation	<p>There is no IPSAS dealing with recognition and measurement of financial instruments in general. IPSASs deal with recognition and measurement of specific financial instruments such as leases (IPSAS 13 “Leases” (issued December 2001); investments in controlled entities (IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities” (issued May 2000)), associates (IPSAS 7) and joint ventures (IPSAS 8 “Financial Reporting of Interests in Joint Ventures” (issued May 2000)); and the disclosure of financial instruments (IPSAS 15 “Financial Instruments: Disclosure and Presentation” (issued December 2001).</p> <p>The relevant IASB Standard is IAS 39 “Financial Instruments Recognition and Measurement” (issued March 2004) requires an entity to recognize a financial asset or a financial liability on its balance sheet when and only when the entity becomes a party to the contractual provisions of the instrument. (IAS 39 para 14).</p> <p>(a) & (b) - Categories 4 and 5 above deal with the general recognition and measurement requirements of IAS 39.</p> <p>IAS 39 provides for derecognition of a financial asset when the contractual rights to the cash flows of the asset expire or the asset is “transferred” – that is when the entity transfers substantially all the risks and rewards of ownership. If this is not clear, then an assessment is made of whether the entity retains control of the asset. Derecognition includes circumstances where the entity transfers the contractual rights to receive the cash flows of the asset, or retains those rights but assumes a contractual obligation to pay those cash flows to third parties. (IAS 39 paras 15-37)</p> <p>IAS 39 provides for derecognition of a financial liability when, and only when, it is extinguished – that is when the obligation specified in the contract is discharged, expires or is cancelled. (IAS 39 para 39)</p>	<p>(a) When a government assumes responsibility for a debt as the primary obligor, or debtor, it incurs a new liability to the creditor and the liability of the original debtor is extinguished. When the government acquires an effective claim on the original debtor, it records an increase in liabilities to the creditor and the acquisition of a financial claim against the original debtor. If the government does not acquire an effective claim, and if the original debtor is a public corporation owned or controlled by the government and the corporation continues to be a going concern, then the assumption is treated as an increase in the government's equity in the corporation. If the original debtor is bankrupt, no longer a going concern, or not a unit owned or controlled by the government, then the government has made a transfer payment. (<i>GFSM 2001</i> Appendix 2, paras 4-6)</p> <p>(b) Debt cancellation (i.e. debt forgiveness) is the cancellation of a debt by mutual agreement between a creditor and a debtor. If the second party is a foreign government or a unit of another general government, a capital grant from the creditor to the debtor is recorded. If the second party is any other type of unit, a capital transfer is recorded. (<i>GFSM 2001</i> Appendix 2)</p>	<p>(a) <i>EMGDD</i> provides rulings on the treatment of debt assumption.</p> <p>(b) <i>EMGDD</i> provides rulings on the treatment of debt cancellation.</p>	<p>Option for Convergence: (a) It is recommended that:</p> <ul style="list-style-type: none"> • IPSASB consider adopting the requirements of IAS 39 (see the comments above in this column in the introduction to category 5); and • IMF clarify <i>GFSM 2001</i> as it is not clear in the case where a general government unit does not acquire an effective claim on the original debtor (which is a public corporation owned and controlled by the assuming government unit) which continues to be a going concern, whether the increase in the equity owned by the general government unit in the public corporation is a transaction or an other economic flow. <p>(b) It is recommended that IMF and IPSASB consider whether <i>GFSM 2001</i> derecognition requirements are aligned with the derecognition requirements in IAS 39 and, if not, that the requirements are aligned.</p>

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(c) Debt rescheduling	<p>(c) IAS 39 provides that an exchange between an existing borrower and lender of debt instruments with substantially different terms, and the substantial modification of the terms of an existing financial liability, shall be accounted for as an extinguishment of an existing financial liability and the recognition of a new financial liability.</p> <p>The difference between the carrying amount of the liability transferred or extinguished and the consideration paid will be recognized in profit and loss. (IAS 39 paras 40-42)</p>	<p>(c) All changes to contractual relationships between debtors and creditors when debt is restructured or rescheduled are recorded as transactions that reduce the liabilities by the amount of debt that has been reorganized and increase liabilities by the market value of the new debt. (<i>GFSM 2001</i> Appendix 2)</p>	<p>(c) <i>EMGDD</i> provides rulings on the treatment of debt rescheduling.</p>	<p>(c) It is recommended that IMF clarify whether debt rescheduling is reflected on a gross basis or a net basis and that it is disclosed as a reconciling item to the extent that a difference exists.</p>
(d) Debt defeasance	<p>(d) See Issues 6.1(a) and (b) above.</p> <p>IPSAS 15 (para 39) specifies that a financial asset and a financial liability should only be offset and the net amount reported when an entity has a legal right to set off the amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.</p>	<p>(d) Debt defeasance is where one unit removes liabilities from its balance sheet by pairing them with financial assets, the income and value of which are sufficient to ensure that all debt-service payments are met. This may be achieved by placing the assets and liabilities in a separate account within the institutional unit concerned or by transferring them to another unit. In <i>GFSM 2001</i>, no transactions are recorded unless there has been a change in the legal obligations of the debtor. The outstanding debt is not affected by the defeasance. (<i>GFSM 2001</i> Appendix 2)</p>	<p>(d) 1993 SNA principles apply (para 11.24).</p>	<p>(d) It is recommended that IPSASB and IMF work together to remove any differences in the interpretation of the requirements under IPSASs and <i>GFSM 2001</i> relating to the set-off of assets and liabilities. It is also recommended that IPSASB and IMF monitor any changes that might be made to IAS 39 and IAS 32 (revised 1998) that have an implication for debt defeasance.</p>
(e) Securitization undertaken by SPEs/SPVs	<p>(e) See Issues 6.1(a) and (b) above. Note also IASB Standards Interpretation Committee SIC 12 “Special Purpose Entities” (SPEs) requires entities/vehicles established for a specific purpose, including securitization of financial assets, to be consolidated when, in substance, the entity controls the special purpose entity.</p>	<p>(e) Special Purpose Vehicles (SPVs) can be set up when governments undertake securitization. The classification of SPVs requires clarification.</p>	<p>(e) <i>EMGDD</i> provides rulings on the treatment of securitization.</p>	<p>(e) It is recommended that:</p> <ul style="list-style-type: none"> • IPSASB consider the requirements of IAS 39 (see the comments above in this column in the introduction to category 5); and • IMF clarify <i>GFSM 2001</i>. <p>It is also recommended that, as with (b), consideration is given to whether <i>GFSM 2001</i> derecognition requirements align with the derecognition requirements in IAS 39.</p> <p>Link to other issues: In relation to (a), see Issue 2.2 re contributions from owners. In relation to (b), see Issue 5.3 re non-performing loans and Issue 8.4(l) re bad and doubtful debts.</p> <p>Link to WGII: WGII Topic 2, privatizations, restructuring agencies, SPVs and securitization.</p>
6.2 Currency on issue/ seigniorage (a) notes (b) coins	<p>Requirements in existing IPSASs do not deal specifically with seigniorage. The PSC (now IPSASB) issued an ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)” (issued January 2004 by the PSC</p>	<p>There is a liability for notes and coins on issue. For notes it is generally the central bank and therefore not the GGS that has the liability and for coins the treasury and therefore the GGS. (<i>GFSM 2001</i> para 7.97)</p>	<p>Same as <i>GFSM 2001</i>.</p>	<p>Option for Convergence: It is recommended that:</p> <ul style="list-style-type: none"> • IPSASB and IMF address the issues jointly, including issues regarding differential treatment of notes and coins, from a whole of

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	(now IPSASB)). The principles considered therein may be relevant.	<p><i>GFSM 2001</i> does not specifically address seigniorage. However, paragraph 6.25 states “The issuance of the coins or notes is a financial transaction that does not involve revenue or expense.”</p> <p>Seigniorage is the profit on the issue of token coinage by a government, representing the difference between the face value of currency issued and its costs of production including the cost of base metals. (<i>GFSM 1986</i>, page 332)</p> <p>Paragraph 6.25 of <i>GFSM 2001</i> states that “Materials to produce coins or notes of the national currency or amounts payable to contractors to produce the currency are included as use of goods and services.”</p>		<p>government and sector perspective and in the context of the ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)”; and</p> <ul style="list-style-type: none"> • ISWGNA agree on a definition of seigniorage (profit on manufacture of notes and/or coins vs. interest on funds obtained on the issue of notes and coins which is effectively interest free funds).

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7: TIME SERIES				
7.1 Prior period adjustments/back casting: (a) accrual basis	(a) Accrual basis – transactions and other events are recognized when they occur. Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate (IPSAS 1 para 6).	(a) Economic events are recorded on an accrual basis – effects of economic events are recorded in the period in which they occur, i.e., at the time at which ownership of goods changes, services are provided, the obligation to pay taxes is created, the claim to a social benefit is established, or other unconditional claims are established. (<i>GFSM 2001</i> para 3.41) In some cases, the time when the activities, transactions, or other events occur that create government claims may not necessarily be the time at which the original event occurred, e.g., capital gains tax, legal decisions. (<i>GFSM 2001</i> para 5.21)	(a) & (b) <i>EMGDD</i> III4: In cases of court decisions with retroactive effects, "only the Court decision establishes the claim with sufficient certainty. Therefore, the time of recording these claims is the year when the Court decision occurs. Amounts should not be distributed over the period in which they accrued, except for that part of the claims that were not the subject of controversy."	<p>Option for Convergence:</p> <p>(b)(ii) It is recommended that IPSASB consider adopting relevant requirements of the improved IAS 8. If IPSASB were to adopt IAS 8 then the correction of material errors would be accounted for retrospectively and comparative periods restated – thus giving rise to convergence between IPSASs and <i>GFSM 2001</i> in relation to correction of errors. Therefore, no further action would be required on this aspect.</p> <p>(b)(i), (ii) & (iii) It is recommended that, where differences remain, the differences are disclosed as reconciling items in relation to:</p> <ul style="list-style-type: none"> • (b)(iii) involuntary changes in accounting policies, because <i>GFSM 2001</i> "back casts" (that is, restates prior periods) whereas IPSASs may not. It is relevant to note that the treatment will be subject to the specific transitional provisions in IPSASs and they may not prescribe retrospective adjustments. (Note: recent IASB standards tend to rely on the generic transitional requirements in improved IAS 8, which require retrospective adoption. To the extent that IPSASs also require retrospective application, no reconciling difference will exist; and • (b)(i) vs. (ii), to the extent that statistical models and accounting models interpret what is a correction of an error and what is a change in estimate differently (for example, reassessment of income tax).
(b) prior period revisions: (i) preliminary through to final (change in estimates) (ii) correction of errors (iii) involuntary changes in accounting policies	(b) The relevant IPSAS is IPSAS 3 "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies" (issued May 2000). In broad terms IPSAS 3 provides that the effect of: <ul style="list-style-type: none"> • A change in an accounting estimate is included in the determination of net surplus or deficit in the period of the change, if the change affects the period only, or the period of the change and future periods, if the change affects both. • A fundamental error that relates to a prior period is adjusted against opening balances of accumulated surplus/deficit or, as an allowed alternative, included in determining surplus or deficit of the current period; and • A change in an accounting policy is applied retrospectively and adjusted against opening balance of accumulated surplus/deficit or, as an allowed alternative, included in determining surplus/deficit of the current period. If the change in accounting policy arises from a new IPSAS which specifies different requirements on initial application, the requirements in the IPSAS are applied. (IPSAS 3 paras 33, 35, 41, 45, &49-68.)	(b) Revisions arising from changes in estimates (as more information becomes available) or correction of errors must be recorded in the period in which the economic event occurred.		

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	<p style="text-align: center;">All IPSASs on issue are identified in Appendix 2</p> <p>The IPSASB is progressing an IPSAS improvements project which includes proposals to align the IPSAS requirements with the equivalent IASs/IFRSs. Such an alignment would include the elimination of options to recognize prior period errors and prior period effects of voluntary changes in accounting policies in the current reporting period.</p> <p>IPSAS 14 “Events After the Reporting Date” (issued December 2001), provides that events that occur after the reporting date but before the date when the financial statements are authorized for issue are recognized in the financial statements as at the reporting date when they provide evidence of conditions that existed as at reporting date. (IPSAS 14 paras 9, 11 & 27)</p>			<p>Link to other issues Issue 9.7 re definition of “material”. It is relevant to note that if <i>GFSM 2001</i> were to accept that prior year figures should only be adjusted for material errors, then this would reduce the number of revisions and make reconciliation much easier.</p>

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	All IPSASs on issue are identified in Appendix 2			
8: FINANCIAL STATEMENTS FOR THE REPORTING ENTITY (AND/OR SECTORS THEREOF)				
8.1 General	<p>IPSAS 1 prescribes that a complete set of financial statements includes the following components - Statement of Financial Position; Statement of Financial Performance; Statement of Changes in Net Assets/Equity; Cash Flow Statement; and Accounting Policies and Notes to the Financial Statements.</p> <p>IPSAS 1 states that financial statements must provide information about an entity's assets, liabilities, net assets/equity, revenue, expenses, and cash flows and prescribes the minimum information that must be presented on the face of the various statements and in the notes. This information is supplemented by specific disclosures in IPSASs that deal with specific issues.</p> <p>Disclosures required include the amount of:</p> <ul style="list-style-type: none"> • Major classes of assets and liabilities, non-current liabilities, net assets/equity; and • Revenue from operations, surplus/(deficit) from operating activities, surplus/(deficit) from ordinary activities, and net surplus/(deficit) for the period. (IPSAS 1 paras 19,75, 76, 79, 83, 86, 89, 90, 95, 97,100, 101, 104,105, 111, 113-115, 122,123, 128 & 133) <p>IPSAS 18 "Segment Reporting" (issued June 2002) includes requirements for the disclosure of information about segments of the reporting entity.</p>	<p>Financial information under <i>GFSM 2001</i> is presented in four financial statements – Statement of Government Operations, Statement of Sources and Uses of Cash, Statement of Other Economic Flows, and Balance Sheet. (<i>GFSM 2001</i> Chapter 4)</p> <p>The analytical framework is presented in the form of a set of interrelated statements derived from the 1993 SNA that integrate stocks and flows. (<i>GFSM 2001</i> para 4.3)</p> <p>Key aggregates are net operating balance (being the results of transactions that change net worth), net lending/borrowing, net worth, and cash surplus/deficit. (<i>GFSM 2001</i> Chapter 4)</p> <p>Additional information is available as memorandum items, for example, other aggregates derived from the balance sheet (e.g. net financial worth, debt) or information not included in the balance sheet (e.g. contingent liabilities). (<i>GFSM 2001</i> Box 4.1)</p> <p>The classifications of the GFS system are (1) revenue, expense, and flows and stocks in assets and liabilities by economic type, (2) expense transactions and transactions in nonfinancial assets by functions of government, and (3) transactions in financial assets and liabilities by sector. (<i>GFSM 2001</i> Appendix 4)</p> <p>GFS distinguishes transactions from other economic flows and reports transactions (revenues, expenses and transactions in financial and nonfinancial assets and liabilities) in a Statement of Government Operations and other economic flows in a Statement of Other Economic Flows.</p> <p>Flows reflect the creation, transformation, exchange, transfer, or extinction of economic value. All flows are classified as transactions or as other economic flows. A transaction is an interaction between two units by mutual</p>	<p>Similar concepts to <i>GFSM 2001</i> but presented as a sequence of interconnected flow accounts linked to different types of economic activity taking place within a given period of time, together with balance sheets at the beginning and end of the reference period. (1993 SNA para 1.3) The key aggregate is Gross Domestic Product (GDP).</p>	<p>The GFS Statement of Sources and Uses of Cash is almost identical to the IPSAS Cash Flow Statement.</p> <p>The GFS Balance Sheet broadly corresponds to the IPSAS Statement of Financial Position.</p> <p>The IPSAS Statement of Financial Performance is similar in structure to the revenue and expense component of the Statement of Government Operations and the Statement of Other Economic Flows but does not distinguish transactions from other economic flows and consequently does not identify (or enable the generation of) the analytical balances in GFS.</p> <p>The reporting models are very similar. However, the way in which the reporting models are presented through financial statements vary considerably.</p> <p>It is suggested that this category of issues and most of the other categories are considered in the context of the IPSASB response to category 1. Depending on that response, the following issues have an additional dimension to consider: in relation to IPSASs, are all these issues and approaches to be considered in the context of the "primary" financial statements or are they only for presentation of financial information about the GGS (and other sectors) in the notes or are they both?</p>

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Category and Issue	Treatment in IPSASs as of June 30, 2004 (or in IASs/IFRSs where no IPSAS is in place)	Treatment in <i>GFSM 2001</i>	Treatment in <i>ESA95/ EMGDD/ SNA</i>	Working Group I Recommendations
	All IPSASs on issue are identified in Appendix 2	agreement or an action within a unit that is analytically useful to treat as a transaction. Mutual agreement means that there was prior knowledge and consent by units, but it does not mean that both units entered into the transaction voluntarily. (<i>GFSM 2001</i> , paras 3.4 & 3.5). An other economic flow is a change in the volume or value of an asset or liability that does not result from a transaction. (<i>GFSM 2001</i> , para 3.25)		
8.2 Format and presentation (including classification) of the cash flow statement	IPSAS 2 “Cash Flow Statements” (issued May 2000) defines cash, cash equivalents and cash flows and specifies that a cash flow statement is to be prepared to report cash flows (cash and cash equivalents) classified by operating, investing and financing activities, including major classes thereof. The IPSAS identifies the circumstances in which cash flows can be reported on a net basis, allows the direct or indirect basis of reporting cash flows, and specifies that investing and financing decisions that do not involve cash flows should be excluded from the statement. (IPSAS 2 paras 8, 18, 27, 32, 35 & 56)	<i>GFSM 2001</i> specifies that a Statement of Sources and Uses of Cash is to be prepared to provide information for assessing the liquidity of the GGS. The Statement shows (a) the total amount of cash generated or absorbed by current operations, (b) transactions in nonfinancial assets and (c) transactions involving financial assets and liabilities other than cash itself. Two balances are shown in the Statement: (i) the cash surplus/deficit defined as the net cash inflow from operating activities minus the net cash outflow from investments in nonfinancial assets, and (ii) the net change in the government’s cash position defined as the sum of the net cash received from the three sources. Cash refers to cash and cash equivalents.. (<i>GFSM 2001</i> 4.46-47) <i>GFSM 2001</i> is silent on the inclusion of notional cash flows in the Statement of Sources and Uses of Cash.	The 1993 SNA and ESA95 do not present any cash data.	Option for Convergence In relation to cash flows, it is recommended that: <ul style="list-style-type: none"> • IPSASB consider a format in which cash surplus/deficit (as determined by <i>GFSM 2001</i>) is presented on the face of the Statement of Cash Flows. • IMF consider explicitly not allowing disclosure of notional cash flows, for example relating to finance leases, on the face of the <i>GFSM 2001</i> Statement of Sources and Uses of Cash (see Issue 8.2(a)).
8.2(a) Leases (in relation to cash flows)	(a) Cash flows, including cash flows relating to leases, will be disclosed consistent with the requirements of IPSAS. 2.	(a) <i>GFSM 2001</i> does not prescribe treatment for the lease payment at the inception of a lease.	The 1993 SNA and ESA95 do not present any cash data.	(a) Option for Convergence: It is recommended that IMF clarify the treatment of finance leases at inception in the cash flow statement in a manner that is consistent with the recommendation in Issue 8.2.
8.3 Format and presentation (including classification) of the statement of financial position	See general comments in Issue 8.1 above.	See general comments in Issue 8.1 above.	See general comments in Issue 8.1 above.	Option for Convergence In relation to the statement of financial position, generally there is no action required – although see Issue 2.2. Link to other issues Issue 2.2 re net worth.
8.4 Format and presentation (including classification) of the statement of financial performance	See general comments in Issue 8.1 above.	See general comments in Issue 8.1 above. The Statement of Government Operations includes: <ul style="list-style-type: none"> • Transactions affecting net worth (revenue and expense); • Transactions in nonfinancial assets (net acquisition 	See general comments in Issue 8.1 above.	Option for Convergence: In relation to financial performance, it is recommended that IMF and IPSASB agree on a comprehensive statement of financial performance that splits the comprehensive result into two components that aligns as far as possible with the <i>GFSM 2001</i> approach. Ideally, those components

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	All IPSASs on issue are identified in Appendix 2	<p>of nonfinancial assets); and</p> <ul style="list-style-type: none"> • Transactions in financial assets and liabilities (net acquisition of financial assets and net incurrence of liabilities). 		<p>should align as far as possible with the IASB approach currently being developed. However, it is arguably not necessary for IPSASB to await the outcome of the IASB Reporting Comprehensive Income Project before developing/amending an IPSAS on financial performance as developing public sector specific performance reporting requirements would not conflict with IPSASB’s sector neutral principle. (This is particularly so if the approach of reporting of the GGS in whole of government GPFs is adopted).</p> <p>Accordingly, it is recommended that the IPSASB and the IMF (as authors of the <i>GFSM 2001</i>) consider, as appropriate, whether a statement of financial performance should be prepared that reports a comprehensive result split into two components, and, if yes, how the split should be done.</p> <p>Consequential issues include:</p> <ul style="list-style-type: none"> • If the split is on a <i>GFSM 2001</i> basis, is the definition of “transactions” and/or how it is interpreted appropriate, particularly in relation to Issues 5.6, 10.11, part of 8.4(f) and 8.4(i) to (o)? • Should GFS analytical balances (such as net lending/borrowing) be presented in GPFs and should they be calculated using (revised/harmonised) GAAP or <i>GFSM 2001</i> measures of the underlying components? • How should any remaining reconciling differences between <i>GFSM 2001</i> net operating balance and the “converged” result (arising from the current efforts) be presented – on the face of the financial statements or in the notes or not at all (except in separately published IMF/national statistical documents)? <p>If IMF and IPSASB resolve performance reporting issues, many specific technical issues can be expected to be resolved, including Issues 2.3(b) & 8.4(a) to (h).</p> <p>Also, in relation to the presentation of expenses and acquisitions of non-financial assets in the comprehensive statement of financial performance (see above), it is recommended that IPSASB consider encouraging adoption of <i>GFSM 2001</i> functional classifications (Classification of the Functions of Government – COFOG) for presentation purposes.</p>

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8.4 Issues (a) to (p) below relate to Reporting Financial Performance	All IPSASs on issue are identified in Appendix 2			The following 16 issues (8.4 (a) to (p)) relate to reporting financial performance. They are presented in the following order – items where WGI is of the view that it is reasonable to expect that GAAP and <i>GFSM 2001</i> : <ul style="list-style-type: none"> • Will be able to align in classifying items as other economic flows, and further classified as remeasurements (Items (a) to (e)); and other volume changes (Items (f) to (h)); and • May find it difficult to reach agreement on classifying items as transactions or other economic flows (remeasurements or volume changes) (Items (i) to (p)).
8.4(a) Repurchase premiums and discounts on debt securities	Requirements in existing IPSASs do not deal specifically with repurchase premiums and discounts on debt securities. The relevant IASB standard is IAS 39 which requires that premiums and discounts on repurchased debt should be included as a gain or loss item in profit and loss. See Issue 6.1(c) above (IAS 39 paras 39 to 41)	For debt securities repurchased on the market, consistent with the current market valuation basis, the repurchase premiums and discounts are recorded as price changes in the Statement of Other Economic Flows.	Same as <i>GFSM 2001</i> .	Recording of the liability redemption is the same in both systems but the treatment of the price change is not. Option for Convergence: It is recommended that IPSASB consider adopting the principles in IAS 39 (see the comments above in this column in the introduction to category 5) and performance reporting [as described in Issue 8.4 above]. It is relevant to note that if IPSASs were to adopt a transactions/other economic flows split, the difference would be resolved – both <i>GFSM 2001</i> and GAAP would classify it as “other economic flows – remeasurement”.
8.4(b) Defined benefit pension schemes – actuarial adjustments	There is no IPSAS on accounting for defined benefit pension schemes. The relevant IASB standard is IAS 19 (issued March 2004) which requires employer contributions, interest, and recognized actuarial gains and losses to be treated as revenue or expense items in the income statement of the employer. IAS 19 provides an option to recognize only the excess of actuarial gains and losses around a 10% “corridor” based on higher of the defined benefit obligation or fair value of plan assets. (IAS 19 paras 61 & 62) IASB has issued an ED which proposes allowing a choice between the “corridor” and full recognition of actuarial gains and losses in the profit and loss or directly into retained earnings in the balance sheet. It is anticipated that any revised requirements will be applicable for 2006. IASB also has long-term projects with the USA-Financial Accounting Standards Board (FASB) and UK-Accounting Standards Board (ASB) with possible implications for IAS 19.	Obligations of employer social insurance pension schemes (funded and unfunded) are recognized in the <i>GFSM 2001</i> . (<i>GFSM 2001</i> Annex to Chapter 2) If a general government unit (as an employer) operates a funded nonautonomous or unfunded pension scheme, then it will have transactions in liabilities for insurance technical reserves. These occur as a result of contributions receivable, property expense payable due to the passage of time, and benefits payable. (<i>GFSM 2001</i> paras 6.79, 9.40, 9.41 and 10.20) Amounts arising from changes in actuarial assumptions are recorded as other economic flows and should be recorded in the relevant periods.	The 1993 SNA/ESA95 do not recognise a liability for unfunded employer sponsored pension schemes. 1993 SNA/ESA95 do not recognize liabilities for employer social insurance unfunded pension schemes.	Option for Convergence: It is recommended that IPSASB consider adopting IAS 19 and performance reporting [as described in Issue 8.4 above]. If IPSASs were to adopt IAS 19 and a transactions/other economic flows split, the difference would be resolved (both <i>GFSM 2001</i> and IPSASs would recognize actuarial adjustments as “other economic flows – remeasurements”). It is relevant to note that IMF is hosting an EDG (Topic 9) on pension schemes and the moderator's report will feed into the 1993 SNA Review. Link to other issues: Category 7, time series.

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8.4(c) Holding gains and losses (including gain or loss on sale of assets)	<p>All IPSASs on issue are identified in Appendix 2</p> <p>IPSAS 17 “Property, Plant and Equipment” (issued December 2001) requires that asset revaluation increments for property, plant and equipment are taken to the asset revaluation reserve (a net asset/equity account) except where they reverse previous decrements. Decrements are recognized as an expense in the Statement of Financial Performance except where a revaluation increment for that class of assets is included in the revaluation reserve, in which case the decrement is first offset against that reserve. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset. (IPSAS 17 paras 49, 50 & 69)</p> <p>IPSAS 4 “The Effects of Changes in Foreign Exchange Rates” (issued May 2000) requires that in most cases foreign exchange gains and losses are recognized as revenue or expenses in the Statement of Financial Performance. (IPSAS 4 para 24)</p>	<p>Holding gains result from price changes and can accrue on all economic assets held for any length of time during an accounting period. They may be realized or unrealized. They do not include a change in the value of an asset resulting from a change in the quantity or quality of the asset. (<i>GFSM 2001</i> paras 10.4-10.27) Holding gains and losses are offset on a category (a concept that is equivalent to the class concept in IPSASs) of assets basis. All revaluations including market value movements arising immediately prior to the sale are treated as other economic flows.</p> <p>Foreign exchange gains and losses are recorded as other economic flows.</p>	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that IPSASB consider performance reporting [as described in Issue 8.4 above].</p> <p>It is relevant to note that if IPSASs were to adopt a transactions/other economic flows split, the difference would be expected to be resolved (because both <i>GFSM 2001</i> and GAAP would classify it as “other economic flows – remeasurements”).</p> <p>Link to other issues: Issue 9.8 re class/category of assets.</p>
8.4(d) Investment property – change in fair value	<p>IPSAS 16 “Investment Property” (issued December 2001) defines investment property as “property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of operations.” IPSAS 16 requires investment property to be recognized at its cost (including transactions costs) or if acquired at no cost, or for a nominal cost, at its fair value at the date of acquisition.</p> <p>Subsequent to initial recognition, an entity may adopt either the fair value model or cost model for subsequent measurements. Under the fair value model, an entity measures all of its investment property at fair value, and recognizes a gain or loss arising from a change in fair value in net surplus/deficit for the period in which it arises. Under the cost model, an entity measures all of its investment property at cost less accumulated depreciation and accumulated impairment loss as for property, plant and equipment under IPSAS 17. (IPSAS 16 paras 6,22,23,32,35, 36 & 58)</p>	Treated the same as any other property and is measured at market value. Consumption of fixed capital (CFC) is expensed (see issue 10.12 depreciation vs. CFC) and changes in market value are treated as other economic flows.	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is relevant to note that IPSAS 16 provides a measurement option. It would be necessary for an entity to choose the fair value option to facilitate convergence.</p> <p>It is recommended that IPSASB consider removing the option in IPSAS 16 to determine carrying amount at cost, and instead requiring fair value. See also recommendation regarding performance reporting [as described in Issue 8.4 above].</p> <p>It is relevant to note that if IPSASs were to adopt a transactions/other economic flows split, the difference would be resolved, subject to the issue of depreciation. In relation to depreciation of investment property, it is recommended that IPSASB consider whether the gain or loss arising from a change in fair value should be split such that depreciation for the building component of investment property measured at fair value should be presented as a transaction separately from price change (which would be presented as an “other economic flows – remeasurements” in <i>GFSM 2001</i>). Depending on the outcome of IPSASB deliberations, a reconciling item may remain in relation to depreciation.</p>

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8.4(e) Financial instruments – change in fair value	<p>Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IAS 39. See category 5 above for general requirements of IAS 39. IAS 39 requires that the change in fair value of an “at fair value” financial asset or financial liability other than a hedge be recognized in profit or loss.</p> <p>With certain exceptions, a change in fair value of other financial assets (referred to as available-for-sale assets) is recognized directly in equity (except for an impairment loss and a foreign exchange gain or loss) and continues to be recognized in equity until the financial asset is derecognized. (IAS 39 para 55)</p> <p>Certain financial assets and financial liabilities may be measured at amortized cost using the effective interest method subsequent to initial recognition (see for example IAS 39 paras 46, 47 & 63). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. (IAS 39, para 9)</p> <p>A change in fair value of a:</p> <ul style="list-style-type: none"> • “Fair value hedge” is recognised in profit and loss, and • Cash flow hedge is recognized directly in equity to the extent it is effective. The ineffective component is recognized in profit and loss. <p>(IAS 39 paras 89 & 95)</p>	<p>Holding gains and losses are recorded as other economic flows. A holding gain or loss is a change in the monetary value of an asset or liability resulting from changes in the level and structure of prices. (<i>GFSM 2001</i> para 10.2)</p> <p>In some cases the value of a liability and the current market interest rate are related. When the future cash flows associated with a financial instrument are fixed, then the market value of the instrument is the sum of the future flows discounted by the current market interest rate. A holding gain or loss occurs when the current market interest rate changes. The change in interest rates also raises the question of how to determine interest expense from that point forward.</p> <p>There are three general possibilities, which are referred to as the debtor, creditor, and acquisition approaches. The debtor approach is the one followed in the <i>GFSM 2001</i> and the 1993 SNA. The debtor approach assumes that interest expense is determined for the entire life of a financial instrument when created. For example, if there is an increase in the interest rate, then the market value of the instrument will decrease. The decrease in the debtor’s liability is treated as a holding gain. If there are no further changes in the interest rate, then over the remaining period of the contract, the market value of the instrument will increase gradually until at maturity it equals the amount the debtor is obligated to pay. These increases in market value are treated as holding losses. (<i>GFSM 2001</i> para 6.49)</p> <p>With the creditor approach, it is assumed that future interest expense is recalculated each time there is a change in the interest rate. Using the same example, at the point where an increase in the interest rate leads to a decrease in the market value of the instrument, the instrument is treated as a new instrument that was issued at a discount. If there are no further changes in the interest rate, then the gradual increases in the market value of the instrument over the remaining period will be treated as interest expense. (<i>GFSM 2001</i> para 6.50)</p> <p>The acquisition approach is the same as the debtor approach except that changes in the interest rate are acknowledged when there is a change in the ownership of the instrument, for example, when traded in a secondary market. (<i>GFSM 2001</i> para 6.50)</p>	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that IPSASB consider adopting the requirements in IAS 39 (see the comments above in this column in the introduction to category 5) and reporting financial performance [as described in Issue 8.4 above]. It is not recommended at this time that IPSASB amend IAS 39 to limit the options available to those that align with <i>GFSM 2001</i>.</p> <p>It is relevant to note that if IPSASs were to adopt IAS 39 and a transactions/other economic flows split, and government’s adopt treatments available in IAS 39 that align with <i>GFSM 2001</i> treatments (including the treatment of loans), the difference would be resolved (both <i>GFSM 2001</i> and IPSAS would classify fair value changes as “other economic flows – remeasurements”)</p> <p>However, the IASB’s proposed amendment to IAS 39 (to restrict the types of financial instruments that may be designated as at fair value through the profit and loss) might impact this option for convergence, and has the potential to hinder the resolution of the differences between GAAP and <i>GFSM 2001</i> – see the introductory comments in the second column of category 5.</p> <p>It is recommended that consideration is given to financial performance reporting by financial institutions (and whether changes in current value should be treated as transactions rather than other economic flows).</p> <p>Also, it is recommended that ISWGNA consider the treatment of interest flows.</p> <p>Link to WGII: WGII (Topic 1) Government transactions with public corporations. 1993 SNA includes reinvested earnings on direct foreign investment as an imputed purchase of shares and other equity but this imputation is not made in the GFS system. The increase in the value of shares and equity is treated as a holding gain – see category 2.</p>

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8.4(f) Cultivated assets (i.e. biological assets) – change in fair value	<p>Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IAS 41 “Agriculture” (For initial recognition of biological assets see Issue 5.8).</p> <p>Change in fair value of biological assets shall be included in profit or loss for the period in which it arises. (IAS 41 para 26)</p> <p>IAS 41 encourages the disclosure of price changes and volume changes. (IAS 41 para 43)</p>	<p>Changes in carrying amounts of cultivated assets can arise from volume or price changes.</p> <p>Price changes are treated as other economic flows.</p> <p>A volume change associated with production (which includes cultivation costs and other biological growth) is treated as a transaction in nonfinancial assets.</p> <p>Volume changes associated with exceptional losses, such as from a bush fire or other natural disaster, are treated as other economic flows.</p>	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that IPSASB consider adopting the requirements of IAS 41. See also recommendation regarding performance reporting [as described in Issue 8.4 above].</p> <p>It is relevant to note that if IPSASs were to adopt IAS 41 and the <i>GFSM 2001</i> transactions/other economic flows split, the difference would be resolved (both <i>GFSM 2001</i> and IPSASs would recognize price change as an “other economic flow – holding gain/loss”, some volume changes as a “transaction” and other volume changes as an “other economic flow – other volume changes”).</p> <p>It is recommended that IPSASB and IMF give consideration to:</p> <ul style="list-style-type: none"> • Circumstances where the split between price and volume change cannot be determined without undue cost or effort. (IASB’s preliminary view is that the classification of the total change in value depends on whether physical or price changes have contributed the most to the total change); • Whether there are any issues relating to cultivated biological assets that are not held primarily for profit. (IAS 41 is applicable to for-profit entities); and • The implications of IAS 41’s acknowledgement that fair value may not be able to be determined reliably – see Issue 9.10. <p>Link to other issues: Issue 5.2(b) and the treatment of point-of-sale costs by IAS 41; and Issue 5.8 relating to the valuation of biological assets.</p>
8.4(g) Initial recognition of other naturally occurring assets not acquired or donated that previously were not known to exist and can now be meaningfully measured, such as water resources and the electromagnetic spectrum	<p>Requirements in existing IPSASs do not deal specifically with this issue. However, IPSASs 16 and 17 include requirements on initial measurement of investment property and PP&E that qualify for recognition. Furthermore, the principles in IASB standard IAS 41 may be relevant.</p> <p>IAS 41 would require a gain or loss on initial recognition of biological assets (for eg. animals or forests) at fair value less point of sales costs to be recognized in profit and loss for the period in which it arises. (IAS 41 para 26)</p>	When a government unit creates an economic asset by exerting ownership rights over a naturally occurring asset, the asset enters the balance sheet as an other volume change. (<i>GFSM 2001</i> para 10.45)	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that IPSASB consider whether principles consistent with IAS 41 are appropriate. See also the recommendation regarding performance reporting [as described in Issue 8.4 above]. In relation to assets created by exertion of ownership rights over naturally occurring assets, it is relevant to note that if IPSASs were to adopt a transactions/other economic flows split, the difference would be resolved (both <i>GFSM 2001</i> and IPSAS would classify the initial recognition as an “other economic flow – other volume changes”).</p> <p>Link to other issues: Category 5 re measurement of assets.</p>
8.4(h) Initial recognition of assets that were previously known to	Issues 3 and 5 above define an asset and outline the requirements of IPSASs for initial recognition and measurement of certain classes of assets. IPSAS 17	All assets recorded in the GFS system are economic assets, which are entities over which ownership rights are enforced by institutional units, individually or	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that IPSASB consider performance reporting [as described in Issue 8.4 above].</p>

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	All IPSASs on issue are identified in Appendix 2			
exist and previously could not be measured meaningfully.	<p>requires recognition of an asset when and only when:</p> <ul style="list-style-type: none"> • It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and • The cost or fair value of the asset to the entity can be measured reliably. <p>IPSAS 17 also specifies that an item of property, plant and equipment will initially be measured at its cost, or for assets acquired at no cost, or for a nominal cost, at its fair value as at the date of acquisition.</p> <p>See Issue 8.4(c) above, for revaluation of non-financial assets already recognized in the statement of financial position.</p>	<p>collectively, and from which economic benefits may be derived by their owners by holding them or using them over a period of time. (<i>GFSM 2001</i> para 7.4)</p> <p>If an asset, which is known to exist but is not classified as an economic asset, becomes an economic asset because of a change in relative prices, technology, or some other event, then an other volume change is recorded to recognize the asset's value and add it to the balance sheet. Conversely, an economic asset may need to be removed from the balance sheet because it is no longer capable of supplying economic benefits or because the owner is no longer willing or capable of exercising ownership rights over the asset. (<i>GFSM 2001</i> 10.30-10.36)</p>		<p>Assuming that IPSASs adopt a transactions/other economic flows split, the difference would be resolved (<i>GFSM 2001</i> would recognize the initial recognition as an "other economic flow").</p> <p>Link to other issues: Issue 8.4(j) re amortisation of intangible non-produced assets.</p>
8.4(i) Assets seized without equivalent compensation [that is, assets that previously existed but were not previously controlled]	See Issue 8.4(h) re recognition process and recognition criteria.	Government units may seize assets from other institutional units without full compensation for reasons other than failure to pay taxes, fines, or similar levies. The excess of the value of assets seized over the value of any compensation paid is recorded as an other volume change. The seizure was not by mutual agreement so it cannot be recorded as a transaction. (<i>GFSM 2001</i> para 10.49)	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that IPSASB consider:</p> <ul style="list-style-type: none"> • Performance reporting [as described in Issue 8.4 above]; and • Whether the item gives rise to a transaction or other economic flow. If its conclusion differs from current <i>GFSM 2001</i> treatment, it is recommended that ISWGNA reconsider its position.
8.4(j) Amortisation of intangible assets not acquired externally at a cost and not internally generated at a cost [nonproduced intangible assets]	<p>Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IAS 38 "Intangible Assets". IAS 38 requires that intangible assets with limited useful lives be amortised. Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life. (IAS 38 paras 8, 74 & 75) Amortization charge is recognized as an expense in most cases.</p>	<p>Nonproduced assets are assets needed for production that have not themselves been produced, such as land, subsoil assets, and certain intangible assets. (<i>GFSM 2001</i> para 4.40)</p> <p>Intangible nonproduced assets are constructs of society evidenced by legal or accounting actions and include patented entities, leases and other contracts, and purchased goodwill. They should be valued at current prices when they are actually traded on markets or, otherwise, at estimates of the net present value of expected future returns. (<i>GFSM 2001</i> paras 7.78 - 7.81) Amortization measures these decreases in value and is treated as an other economic flow. (<i>GFSM 2001</i> para 10.42)</p>	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: It is recommended that IPSASB consider the suitability of IASB decisions relating to IAS 38. See also the recommendation regarding performance reporting [as described in 8.4 above].</p> <p>It is relevant to note that even if IPSASs were to adopt a transactions/other economic flows split, it is possible that IPSASs would (continue to) treat amortisation of intangible nonproduced assets as transactions, rather than as other economic flows. Depending on the outcome of IPSASB deliberations on the distinction between transactions and other economic flows, it is recommended that ISWGNA consider treating amortisation of intangible nonproduced assets as a transaction.</p> <p>See OECD Canberra II Group (see Topic 28 in Annex I).</p> <p>Link to other issues: Issue 8.4(h) re initial recognition of assets that were previously known to exist and previously could not be measured meaningfully.</p> <p>Issue 3.1 re R&D and intangible assets.</p>

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Category and Issue	Treatment in IPSASs as of June 30, 2004 (or in IASs/IFRSs where no IPSAS is in place) All IPSASs on issue are identified in Appendix 2	Treatment in <i>GFSM 2001</i>	Treatment in <i>ESA95/ EMGDD/ SNA</i>	Working Group I Recommendations
8.4(k) Depreciation/ Impairment of revalued assets	IPSAS 17 requires that depreciation is recognized as an expense in the statement of financial performance. IPSAS - ED 23 "Impairment of Assets" proposes that non-cash-generating property, plant and equipment measured at fair value in accordance with IPSAS 16 should not be subject to an impairment test.	<i>GFSM 2001</i> does not recognize depreciation as defined in the accounting standards. The measure of the decline in value of fixed assets during an accounting period is called consumption of fixed capital and it is recognized as an expense. It is valued in the average prices of the period. Impairment is treated as an other economic flow.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that IPSASB consider performance reporting [as described in Issue 8.4 above]. It is also recommended that IPSASB consider the treatment of depreciation on the revaluation component. If it concludes differently to the <i>GFSM 2001</i> treatment (for example, if it concludes that depreciation relating to the revaluation component is an other economic flow rather than a transaction) then a reconciling difference will exist.
8.4(l) Bad and doubtful debts	Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IAS 39. See category 6 above for recognition and derecognition of financial assets.	General government units that are creditors may write off financial assets without agreement with the debtor. As a result the government's claim has no value and is eliminated from the government's balance sheet by recording an other economic flow. A unilateral write-down of a partial value is treated similarly. (<i>GFSM 2001</i> Appendix 2 para 12) A unilateral write-off by the debtor is not recognized. A write-off or write-down by mutual agreement is recorded as an expense (transfer). (<i>GFSM 2001</i> Appendix 2 para 9) Accounts receivable will be retained on balance sheet as an accounts receivable until a debt cancellation, write-off, or write-down has taken place. (<i>GFSM 2001</i> Appendix 2)	Same as <i>GFSM 2001</i> , but ESA95 only records taxes that are expected to be collected, so uncollectible taxes should not be on the balance sheet.	Option for Convergence: It is recommended that IPSASB consider whether bad and doubtful debts are transactions or other economic flows. It is relevant to note that if IPSASs were to adopt a transactions/other economic flows split, it is possible that IPSASs would treat all bad debts (relating to prior period provisions) written off and debt forgiven as either other economic flows or as transactions. If IPSASs treat them all as other economic flows, mutually agreed bad debts would be classified differently under IPSASs compared with <i>GFSM 2001</i> (because <i>GFSM 2001</i> classifies mutually agreed bad debts as transactions). If IPSASs treat them all as transactions, unilaterally written off bad debts would be classified differently under IPSASs compared with <i>GFSM 2001</i> (because <i>GFSM 2001</i> classifies unilateral write offs as other economic flows). Therefore, a reconciliation difference may remain. Link to other issues: Issue 5.3 re non-performing loans.
8.4(m) Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IFRS 3 "Business Combinations" (issued March 2004). Where the fair values of identifiable net assets acquired exceed the cost of acquisition, IFRS 3 requires the recognition of revenue immediately.	Under <i>GFSM 2001</i> para 3.9 partitioning of transactions may take place if, intentionally, a transaction is not at market value. The actual transaction should be partitioned into 2 transactions, one that is only an exchange and one that is only a transfer. For example, if a government unit purchases an asset for more than its market value, the purchase should be valued at the true market price and a transfer for the remaining amount should be imputed. The transfer would be recorded as a revenue transaction. (<i>GFSM 2001</i> para 3.74) If it was not intended to transact at a price other than market price, the transaction should be recorded at the sale price. The revaluation to market price should be recorded as an other economic flow.	Same as <i>GFSM 2001</i> .	Option for Convergence: This is not likely to be a significant issue. To the extent it arises, depending on circumstances, a reconciling difference may remain (even if IPSASs adopt both the IASB approach to accounting for the excess over cost and a transactions/other economic flows split) to the extent that IPSASs treat the excess as a transaction, and <i>GFSM 2001</i> treats it as an other economic flow.

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8.4(n) Defined benefit pension schemes – interest costs and return on plan assets	<p>There is no IPSAS on accounting for defined benefit pension schemes. The relevant IASB standard is IAS 19. In broad terms, under IAS 19:</p> <ul style="list-style-type: none"> • interest cost is determined by applying high quality corporate bond yields (where there is a deep market in such bonds, to the present value of the defined benefit obligation (DBO) and is recognized in profit and loss. In countries where there is no deep market in such bonds, the market yields (at balance sheet date) on government bonds shall be used. (paras 61, 78 & 82); • return on plan assets comprises interest, dividends and other revenue derived from plan assets, together with realized and unrealized gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan, and is recognized in profit and loss. The difference between expected return on plan assets and actual return on plan assets is an actuarial gain or loss. (para 105); and • as noted in Issue 8.4(b), actuarial gains and losses are recognized as revenue or expense. IAS 19 includes an option to recognize only those actuarial gains/losses that exceed the greater of 10% of the DBO and the fair value of plan assets – the “corridor”. (paras 7, 92 & 105). <p>As also noted in Issue 8.4(b), IASB issued an Exposure Draft which includes a proposal for an additional option for recognition of actuarial gains and losses being to allow their recognition directly in equity.</p>	<p>Under <i>GFSM 2001</i>, interest is calculated by applying an appropriate interest rate to the net unfunded balance, and it is classified as a transaction. (<i>GFSM 2001</i> para 6.79)</p> <p>The employer recognizes immediately net unfunded positions of employer pensions schemes including, as other economic flows, actuarial gains and losses and holding gains and losses on assets (difference between actual return and <i>GFSM 2001</i> income on assets). (<i>GFSM 2001</i> paras 10.20 & 10.21)</p>	<p>1993 SNA/ESA95 differ from <i>GFSM 2001</i> in the treatment of transactions in insurance technical reserves due to the different treatment of employer social insurance pension schemes between the two systems.</p>	<p>Option for Convergence: It is recommended that IPSASB consider whether to adopt the requirements in IAS 19 and the transactions/other economic flows split.</p> <p>Both GAAP and <i>GFSM 2001</i> may present a net amount relating to notional interest on the net unfunded balance on the face of the statement of financial performance. A difference may arise in relation to the rates used – and therefore a reconciling difference exists. It is recommended that IMF consider the GAAP approach for selecting the appropriate rate for <i>GFSM 2001</i> purposes.</p> <p>In relation to the return on plan assets, it is recommended that IPSASB consider whether that return (whether interest or other type of return) is a, or includes components which are, transactions or other economic flows. To the extent that it concludes differently from <i>GFSM 2001</i>, a reconciling item may remain.</p> <p>Link to ISWGNA/AEG: EDG 9 on pension schemes.</p>
8.4(o) Swap interest	<p>Requirements in existing IPSASs do not deal specifically with this issue. The relevant IASB standard is IAS 39. Interest is recorded as a revenue or expense in the Statement of Financial Performance. Realized and unrealized movements of “at fair value financial assets and liabilities” are recorded as revenues or expenses in the Statement of Financial Performance. (IAS 39 paras 89 & 95)</p>	<p>Transactions in financial derivatives are treated as transactions in financial assets and liabilities. There are no transactions in revenue and expense. Therefore, swap interest is not a revenue or an expense – it is a transaction in a financial asset or liability. Any cash settlement payment is recorded as a transaction in financial derivatives. (<i>GFSM 2001</i> 9.44-9.49) Holding gains and losses are recorded as other economic flows.</p>	<p>Same as <i>GFSM 2001</i>.</p>	<p>Option for Convergence: It is recommended that IPSASB consider the appropriate treatment of swap interest in the context of whether it is a revenue or expense or a transaction in financial assets or liabilities (and its consequences for other economic flows). Depending on the outcome of IPSASB deliberations, a reconciling difference may remain. Even if IPSASs were to adopt a transactions/other economic flows split, it is possible that IPSASs would treat swap interest as a transaction (revenue or expense), rather than as a transaction in financial derivatives (and therefore an other economic flow).</p> <p>Depending on the outcome of IPSASB deliberations, it is recommended that ISWGNA consider treating swap interest as an expense.</p>

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8.4(p) Tax credits	<p>All IPSASs on issue are identified in Appendix 2</p> <p>Requirements in existing IPSASs do not deal specifically with this issue. The ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)” (issued January 2004 by the PSC (now IPSASB)) differentiates between:</p> <ul style="list-style-type: none"> • Expenses paid through the tax system, which are items available to beneficiaries regardless of whether they pay tax. The ITC proposes that they should be recognized as expenses rather than offset against tax revenue; and • Tax expenditures that provide taxpayers with concessions not available to others. The ITC notes they will not give rise to revenue or assets and are foregone revenue. 	<p>Tax credits are treated as negative tax except in the case where they result in the government making a net payment to the taxpayer. Such net payments are treated as an expense. (<i>GFSM 2001</i> para 5.23)</p>	<p>Same as <i>GFSM 2001</i>.</p>	<p>This issue is arguably a lower order GAAP/GFS convergence issue (in comparison with other issues identified in this Matrix) as, like the tax gap (see Issue 10.1), it relates to the gross or net recognition of revenues and expenses. That is, the issue would not cause a difference in the net result.</p> <p>Option for Convergence: It is recommended that IPSASB progress the ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)”. It is relevant to note that the ITC uses the terms “tax expenditures” and “expenses paid through the tax system”, and it is suggested that it is clarified whether “tax credits” (and its treatment under <i>GFSM 2001</i>) aligns with the ITC notions and treatments – see Issue 9.5.</p> <p>Link to other issues Issue 9.5 re definition/terminology relating to negative tax revenue.</p> <p>Link to WGII: WGII (Topic 3) Tax revenue, uncollectible taxes, tax credits.</p> <p>(It is relevant to note that the <i>OECD Revenue Statistics</i> shows tax credits as negative taxation to the extent that they reduce each taxpayer’s liability to zero. The excess is shown as an expense. (Refer “Revenue Statistics Special Features: Tax Reliefs and the Interpretation of Tax-to-GDP Ratios, The Introduction of Accrual Accounting 1965-2002” page 287.))</p>

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	All IPSASs on issue are identified in Appendix 2			
9: TERMINOLOGY AND DEFINITIONS	<p>The same terms may be used in <i>GFSM 2001</i> and IPSASs with the same or different meanings. See <i>GFSM 2001</i> and IPSAS Glossary of Defined Terms.</p> <p>Issue 9.1 identifies fundamental concepts. These concepts shape the specific reporting requirements in each model. Because of their significance it is considered useful to draw them together explicitly in the one place. Consequently, in some cases Issue 9.1 repeats key definitions used in other categories in this Matrix. These definitions appear in the IPSAS glossary of defined terms.</p>	<p>The same terms may be used in <i>GFSM 2001</i> and IPSASs with the same or different meanings. See <i>GFSM 2001</i> and IPSAS Glossary of Defined Terms.</p> <p>Issue 9.1 identifies fundamental concepts. These concepts shape the specific reporting requirements in each model. Because of their significance it is considered useful to draw them together explicitly in the one place. Consequently, in some cases Issue 9.1 repeats key definitions used in other categories in this Matrix.</p>	Same as <i>GFSM 2001</i> generally, but there are some differences.	<p>Option for Convergence: In the interest of ongoing convergence, it is recommended that:</p> <ul style="list-style-type: none"> • Definitions are aligned by using the same words where there is no intended difference in meaning (for example, assets, liabilities, revenue, expenses, net assets/equity, contributions from owners); • Consideration is given to the implications of any intended differences and whether such differences continue to be justified; • One reporting model consider adopting the definitions in the other reporting model where one has a definition and the other does not. (For example, IPSASs define provisions and <i>GFSM 2001</i> does not. <i>GFSM 2001</i> defines transactions, other economic flows and sectors and IPSASs do not). The extent to which IPSASs adopt the <i>GFSM 2001</i> definitions of transactions and other economic flows may prompt a reconsideration of the assessment of the likelihood of achievement of convergence in relation to issues 8.4(i) to (p); and • <i>GFSM 2001</i> consider using terminology that is more aligned with GAAP terminology. For example, terms such as “analytical balances” used in <i>GFSM 2001</i> in relation to the statement of government operations is more applicable to balance sheets in a IPSASB context. Also, the term “net lending/borrowing” would possibly translate to “change in net financial assets” in an IPSASB context. <p>Adopting this option for convergence may help avoid any unintended differences going forward.</p>
9.1 Fundamental Concepts: Assets, Liabilities, Revenues, Expenses, Contributions from Owners and Net Assets/Equity	<p>Assets are “resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow”.</p> <p>Expenses are “decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners”.</p> <p>Liabilities are “present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential”.</p> <p>Revenue is “the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners”.</p>	<p>Assets are economic assets over which ownership rights are enforced and from which economic benefits may be derived by their owners by holding them or using them over a period of time. (<i>GFSM 2001</i> para 7.4)</p> <p>Expense is a decrease in net worth resulting from a transaction. (<i>GFSM 2001</i> para 6.1)</p> <p>Liabilities are obligations to provide economic benefits to the units holding the corresponding financial claims. (<i>GFSM 2001</i> 7.14) Liabilities include shares and other equity of the issuing units. (<i>GFSM 2001</i> para 7.16)</p> <p>Revenue is an increase in net worth resulting from a transaction. (<i>GFSM 2001</i> para 5.1)</p> <p>Net worth is total assets less total liabilities.</p>	Same as <i>GFSM 2001</i> .	<p>Option for Convergence: In relation to assets, it is recommended that ISWGNA consider adopting the IPSASB definition of assets, particularly relating to ownership vs. control and “past event” (see Topic 4 of WGII).</p> <p>In relation to the other terms identified, refer to the recommendation above in the introduction to category 9.</p>

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	All IPSASs on issue are identified in Appendix 2			
	Contributions from owners are “future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which: (a) conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) can be sold, exchanged, transferred or redeemed.” Net assets/equity: “The residual interest in the assets of the entity after deducting all its liabilities”.			
9.2 Current value	Fair value is “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction”. Market value is “the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market”. The guidance in IPSASs outlines techniques for determining fair value when an active market may not be available.	Market value is defined as the amount that would have to be paid to acquire the asset on valuation date. (<i>GFSM 2001</i> para 7.22)	Same as <i>GFSM 2001</i> .	Option for Convergence: Although fair value (IPSASB) and market value (1993 SNA/ <i>GFSM 2001</i>) are similar, they are not the same. It is recommended that further work is undertaken to ensure that unintended differences do not arise. It is recommended that ISWGNA consider adopting the IPSASB definition and explanation thereof. It is relevant to note that OECD Canberra II Group will consider the issue (see Topic 30 in Appendix 1).
9.3 Correction of error/change of estimate	IPSASs explain but do not include formal definitions of correction of an error or change in an accounting estimate. The relevant IASB standard is IAS 8 “Accounting Policies”. IASs do include definitions of these terms. IAS 8 defines a change in an accounting estimate in terms of adjustments to the carrying amounts of assets or liabilities which arise from new information or new estimates and accordingly are not corrections of errors. Prior period errors are defined in terms of omissions or misstatements arising from the failure to use, or misuse of, reliable information which: <ul style="list-style-type: none"> • Was available when the financial statements were authorised for issue; or • Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of the financial statements. (IAS 8 para 5)	Flows are recorded at the time economic value is created, transformed, exchanged, transferred, or extinguished, i.e., the effects of economic events are recorded in the period in which they occur. (<i>GFSM 2001</i> para 3.41) Revisions (correction of errors) are back cast to the time of the economic event.	Same as <i>GFSM 2001</i> .	In practice, it is possible that what <i>GFSM 2001</i> treats as a correction of an error (and therefore back casts) is treated as a change of estimate under IASB Standards (and therefore not back cast). Option for Convergence: It is recommended that IMF and IPSASB align definitions. To the extent that a difference continues to exist, it is recommended that it is disclosed as a reconciling difference. Link to other issues: Issue 7.1 re prior period adjustments/back casting.

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9.4 Public sector for-profit entities	A GBE is “An entity that has all the following characteristics: (a) is an entity with 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; (d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm’s length); and (e) is controlled by a public sector entity.”	PNFCs and PFCs are legal entities that are created for the purpose of producing goods and services for the market. (<i>GFSM 2001</i> para 2.14) Public corporations are resident corporations controlled by general government units (<i>GFSM 2001</i> para 2.61). In addition, the GFS system treats quasi-corporations (entities that are not incorporated or otherwise legally established, but which function as if they are corporations) as corporations.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that WGII (Topic 4) and IPSASB align terminology/definitions. To the extent differences continue to exist, it is recommended that they are disclosed as reconciling differences.
9.5 Tax credits	The ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)” (issued January 2004 by the PSC (now IPSASB)) distinguishes between tax expenditures and expenses paid through the taxation system. Tax expenditures are preferential provisions of the tax law that provide taxpayers with concessions that are not available to others. Expenses paid through the tax system are items that are available to beneficiaries regardless of whether or not they pay taxes. (ITC paras 3.25 and 3.26)	Tax credits are amounts deductible from the tax that otherwise would be payable. Some types of credits can result in a government unit making a net payment to the taxpayer. Such net payments are treated as an expense rather than a negative tax. (<i>GFSM 2001</i> para 5.23) A “tax credit” under imputation systems of corporate income tax, is treated as a negative tax rather than expense. (<i>GFSM 2001</i> para 5.34)	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that WGII (Topic 3) and IPSASB align terminology/definitions. To the extent differences continue to exist, it is recommended that it is disclosed as a reconciling difference.
9.6 Tax gap	The ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)” explains the tax gap as the extent to which the amount of taxes collected is lower due to the underground economy (or black market), fraud, evasion, non-compliance with the tax law, and error. Amounts previously included in tax revenue that are determined as not collectible do not constitute part of the tax gap. (ITC para 3.9)	Only those taxes that are evidenced by tax assessments, customs declarations, and similar documents are considered to create revenue for government. Revenue should only be accrued for an amount that the government units realistically expect to collect. (<i>GFSM 2001</i> para 3.56-57)	The EMGDD provides rules for the recording of taxes.	Option for Convergence: It is recommended that WGII (Topic 3) and IPSASB align definitions. To the extent differences continue to exist, it is recommended that they are disclosed as reconciling differences. Link to other issues: Issue 10.1 re uncollectible taxes – the tax gap.
9.7 Materiality	Materiality: “Information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.”	Materiality is not mentioned in <i>GFSM 2001</i> .	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that ISWGNA articulate a concept of/guidance on materiality along the lines of IPSASB.
9.8 Class/category of assets	Class of property, plant and equipment: “A grouping of assets of a similar nature or function in an entity’s operations, that is shown as a single item for the purpose of disclosure in the financial statements.”	Assets and liabilities are classified by type.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that IMF and IPSASB align terminology/definitions. To the extent differences exist, it is recommended that they are disclosed as reconciling differences. Link to other issues: Issue 8.4(c) re holding gains and losses.

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Category and Issue	Treatment in IPSASs as of June 30, 2004 (or in IASs/IFRSs where no IPSAS is in place)	Treatment in <i>GFSM 2001</i>	Treatment in <i>ESA95/ EMGDD/ SNA</i>	Working Group I Recommendations
9.9 Net assets/net worth	See Issue 9.1 above for the definition. All IPSASs on issue are identified in Appendix 2	Net worth is defined as total assets less total liabilities. Total liabilities include shares and other equity (public corporations only).	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that ISWGNA consider changing its terminology to avoid confusion.
9.10 Asset recognition criteria	See category 3 above for a fuller exposition of recognition criteria. In broad terms, non-financial assets are recognized when and only when: <ul style="list-style-type: none"> • It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and • The cost or fair value of the asset to the entity can be measured reliably. See also IAS 39 for general criteria for recognition of financial assets.	See definition of assets in Issue 9.1 above. <i>GFSM 2001</i> does not require reliable measurement as a condition for recognizing an asset.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that the role of reliable measurement in statistical reporting models is considered together with its implications for convergence. It is relevant to note that the notion of “reliable measurement” may be a cause of a general difference between <i>GFSM 2001</i> and GAAP, to the extent that <i>GFSM 2001</i> accepts a measurement of current value that GAAP would regard as “unreliable”. OECD Canberra II Group is considering whether to adopt the “reliable measurement” criterion as part of its Topic 30 (see Appendix 1).
9.11 Financial assets	Financial asset is “Any asset that is: (a) cash; (b) a contractual right to receive cash or another financial asset from another entity; (c) a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or (d) an equity instrument of another entity.”	“Financial assets consist of financial claims, monetary gold, and Special Drawing Rights (SDRs) allocated by the IMF. Financial claims are assets that entitle one unit, the owner of the asset (i.e., the creditor), to receive one or more payments from a second unit, the debtor, according to the terms and conditions specified in a contract between the two units. A financial claim is an asset because it provides benefits to the creditor by acting as a store of value. The creditor may receive additional benefits in the form of interest or other property income payments and/or holding gains. Typical types of financial claims are cash, deposits, loans, bonds, financial derivatives, and accounts receivable”.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that IMF and IPSASB align terminology/definitions. To the extent differences continue to exist, it is recommended that they are disclosed as reconciling differences.

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	All IPSASs on issue are identified in Appendix 2			
10: ITEMS CONSIDERED AND FOUND NOT TO OR NOT EXPECTED TO BE A CAUSE OF A DIFFERENCE				
10.1 Uncollectible taxes – the tax gap	Requirements in existing IPSASs do not deal specifically with this issue. However, it is a subject of an ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)” (issued January 2004 by the PSC (now IPSASB)). The ITC (which expresses the views of the Steering Committee) proposes that disclosures be required about the nature and extent of the tax gap that can be reliably estimated. (ITC January 2004 para 3.11)	Only those taxes that are evidenced by tax assessments, customs declarations, and similar documents are considered to create revenue for government units. (<i>GFSM 2001</i> para 5.14) In addition, some of the taxes assessed will never be collected and these should not be recorded as revenue. Only taxes that are realistically expected to be collected should be recorded. (<i>GFSM 2001</i> para 3.57)	ESA95 – clarification has been provided. It involves use of a coefficient to smooth out stock.	It is relevant to note that this is partly a gross vs. net issue, and therefore arguably a lower order GAAP/GFS convergence issue. That is, although it is possible that gross revenues and expenses may differ between <i>GFSM 2001</i> and IPSAS (depending on how each treats the tax gap), the net result would not differ. Option for Convergence: It is recommended that IPSASB progress the ITC “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)”. Depending on the outcome of IPSASB deliberations on its non-exchange revenue ITC, no difference exists. Link to other issues: This issue is related to the measurement of revenue. See also Issue 9.6 re tax gap. Link to WGII: WGII (Topic 3) Tax revenue, uncollectible taxes, tax credits.
10.2 Purchased goodwill of public corporations	There is no IPSAS dealing with purchased goodwill. IFRS 3 “Business Combinations” requires goodwill purchased in a business combination to be initially measured as the excess of the cost of acquisition over the acquirer’s interest in the fair value of the identifiable net assets. After initial recognition goodwill is tested for impairment at least annually in accordance with IAS 36 “Impairment of Assets”.	When a production unit is sold at a price that exceeds its net worth, then the excess of the purchase price over the net worth is an economic asset known as purchased goodwill. It can represent many types of assets that are not separately recognized as economic assets. The purchased goodwill is recognized through an other economic flow (other volume change) by the entity being acquired so that the revised net worth exactly equals the purchase price. The goodwill would then be sold immediately along with the production unit’s other assets and liabilities. (<i>GFSM 2001</i> , para 10.35) Accordingly, the purchaser would record purchased goodwill as an asset.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no action is required.
10.3 Privatizations (a) sale of equity (b) sale of operations (c) sale of single asset	The relevant IPSAS is IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities” (issued May 2000). Paras 47 and 57(b)(iv) of IPSAS provide (i) surplus/deficit on disposal of a controlled entity is recognized in the consolidated financial	A disposal by a government of the controlling equity in a public corporation or quasi-corporation is treated as a transaction in shares and other equity. If a public corporation or quasi-corporation sells some of its assets and transfers part or all of the proceeds to its parent	<i>EMGDD</i> provides rulings on the treatment of privatizations.	Option for Convergence: It is recommended that no action is required. Link to other issues: Issue 8.4(c) – holding gains and losses.

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	All IPSASs on issue are identified in Appendix 2			
(This issue is relevant from a GGS and controlled entity perspective)	statements in the period that control is lost; and (ii) disclosures of the financial effects of the disposal are required to be made.	government unit, then the transaction would also be a sale of shares and other equity by the government unit. If the assets disposed of by a government unit as a single transaction constitute a complete institutional unit, the transaction should be classified as a sale of equity. The government is assumed to have converted the unit to a quasi-corporation immediately prior to the disposal by means of a reclassification of assets, which is an other economic flow. If the assets do not constitute a complete institutional unit, then the transactions are classified as a disposal of individual non-financial and/or financial assets. (<i>GFSM 2001</i> paras 9.38 - 9.39)		Link to WGII: WGII (Topic 2) Privatizations and restructuring agencies, and securitization.
10.4 Borrowing costs	The benchmark treatment in IPSAS 5 “Borrowing Costs”, (issued May 2000), requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This capitalization increases the annual depreciation charged through the asset’s useful life. IPSAS 5 para 6 states: “Borrowing costs may include: (a) Interest on bank overdrafts and short-term and long-term borrowings; (b) Amortization of discounts or premiums relating to borrowings; (c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings; (d) Finance charges in respect of finance leases; and (e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.”	“Borrowing costs” is not a classification item in <i>GFSM 2001</i> . These costs are broken down into their constituent components and each component is treated separately. If an intermediary is involved, all service charges, fees, commissions, and similar payments for services provided in carrying out transactions are expensed. If there is no intermediary, i.e., the government is dealing directly with the lender, the borrowing costs are likely to be inseparable from interest – an expense also, but a different classification within expense. For securities issued at a discount or premium, the difference between the issue price and price at maturity is treated as interest accruing over the life of the securities, once again, as an expense.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no action is required. IPSAS 5 provides an option for borrowing costs to be capitalised or expensed in certain circumstances. To the extent that jurisdictions adopt the expense option, convergence is achieved. To strengthen convergence, IPSASB should consider removing the option to capitalize. It is recommended that the work of the IASB on the treatment of borrowing costs, whether in the broad measurement project or otherwise, is monitored. Link to other issues: Issue 8.4(o) re swap interest.
10.5 Land under roads	IPSAS 17 “Property, Plant and Equipment” (issued December 2001) requires recognition of land under roads as an asset, if it satisfies the recognition criteria. IPSAS 17 provides a transitional period of 5 years during which its requirements can be phased in.	Land is the ground itself and major improvements that cannot be physically separated from the land, but excluding, for example, roads [being the road as distinct from the land under the road]. In determining a market price for land, the location and the uses for which it is suitable or sanctioned must be taken into account. (<i>GFSM 2001</i> paras 7.70 - 7.72)	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no action is required – both IPSASs and <i>GFSM 2001</i> require the recognition of land under roads (although note the transitional period in IPSAS 17).

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10.6 “Subscriptions” to international organizations	The costs of subscriptions will be recognized as an asset if they satisfy the definition and recognition criteria for assets, including the reliability of measurement. Whether an asset is recognized will depend on whether the subscription provides future economic benefit or service potential. If it does not, an expense is recognized.	Capital subscriptions to international non-monetary organizations, which are returnable in the event a country’s membership in the institution is terminated, are recorded as other investments/other assets. (Balance of Payments Manual Fifth Edition (BPM5) para 422)	ESA 95 para 5.94: classified as “other equity”.	Option for Convergence: It is recommended that no action is required (although IMF could consider clarifying that, depending on their nature, “subscriptions” to international non-monetary organizations could give rise to expenses). Link to other issues: Issue 10.13 re IMF Special Drawing Rights (SDRs). The IMF is revising BPM5 and this issue is on the list of issues for consideration.
10.7 Measurement of non-cash-generating assets	IPSAS 17 requires cost or fair value. It does not require recognition of heritage assets or specify how recognized heritage assets are to be measured.	All assets are to be valued at market value. The <i>GFSM 2001</i> provides some guidance on ways to estimate market value for assets that are non cash flow assets. (<i>GFSM 2001</i> paras 7.22 - 7.30)	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no action is required (although consideration could be given to improving/aligning the guidance in <i>IPSAS/GFSM 2001</i> on the valuation of non-cash generating assets – including heritage assets). To the extent that entities elect to measure non-cash flow generating assets at fair value (IPSAS 17), or IPSASB removes the option for measuring those assets at historical cost, there is conceptually no difference between IPSASs and <i>GFSM 2001</i> (except to the extent that fair value differs from market value). Link to other issues Issue 9.2 re definition/terminology of current value.
10.8 Frequency of valuation	IPSAS 17 requires fair values to be kept up to date and explains that the frequency of revaluations depends upon the movements in the fair values of the items of property, plant and equipment. Revaluation every 3-5 years may be sufficient if there are insignificant movements in fair value. IPSAS 16 “Investment Property” (issued December 2001) requires that after initial recognition a fair value or cost model should be adopted. Under the fair value model revaluations would occur at each reporting date. There is no IPSAS dealing with the frequency of valuation of liabilities in general. However, provisions and leases are required to be reliably measured at reporting date.	Assets and liabilities are revalued at the balance sheet date. (<i>GFSM 2001</i> para 3.73)	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no action is required. There is no conceptual difference between <i>GFSM 2001</i> and IPSASs in relation to the frequency of valuations. Link to other issues: Issue 8.4(c) re gain/loss on sale of assets.
10.9 Transaction costs: (a) acquisition of nonfinancial assets	(a) IPSAS 17 prescribes that “an item of property, plant and equipment which qualifies for recognition as an asset should initially be measured at its cost.” Cost includes any directly attributable costs of bringing the asset to	(a) Transactions costs (includes all transport and installation charges and all costs of ownership transfer) are capitalized for nonfinancial assets. (<i>GFSM 2001</i> paras 7.22, 8.6 & 9.7)	Same as <i>GFSM 2001</i> .	(a) Option for Convergence: It is recommended that no action is required. The nature of transaction costs incurred on the acquisition of nonfinancial assets is aligned.

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(b) acquisition of financial assets	working condition for its intended use, e.g. cost of site preparation, initial delivery and handling costs, installation costs, and professional fees for architects and engineers. (IPSAS 17 paras 22 and 26) (b) There is no IPSAS dealing with the initial recognition of financial assets. The relevant IASB Standard is IAS 39. IAS 39 requires transaction costs for financial instruments measured at fair value with changes in fair value recognized through profit/loss to be recognized in the profit/loss as incurred.	(b) Transactions costs are called costs of ownership transfer in the <i>GFSM</i> . They are expensed for financial assets and liabilities. They are excluded from the current market value as counterpart financial assets and liabilities refer to the same financial instrument and should have the same value. (<i>GFSM 2001</i> paras 7.22, 8.6 & 9.7)		(b) Option for Convergence: It is recommended that no action is required to the extent that IPSASs reflect the relevant requirements of IAS 39.
10.10 Lease liabilities	IPSAS 13 “Leases” (issued December 2001) prescribes finance lease liabilities to be measured at lower of the present value of minimum lease payments and fair value of the leased property at the inception of the lease. Over the term of the lease, minimum lease payments are allocated between interest and reduction of the liability. (IPSAS 13 paras 20 and 26)	Lease liabilities are recorded as loans and valued at nominal value – where the discount rate used is the contract rate of interest. (<i>GFSM 2001</i> page 32, footnote 8) <i>GFSM 2001</i> para 3.76 states that “liabilities should be valued at their current market value when recorded on the balance sheet”. For loans that are not traded on markets, it is necessary to value them at nominal value. If loans become marketable on secondary markets, they are reclassified as securities other than shares and are valued at market prices. (<i>GFSM 2001</i> para 7.111)	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no action is required. Link to other issues To the extent that the contract rate is less than the market rate, see Issue 5.4, re low interest and interest free loans. However, this is unlikely to be a significant issue.
10.11 Measurement at initial recognition of found/discovered non-financial assets	IPSAS 17 requires initial measurement of property, plant and equipment at cost. Where an asset is acquired for no or nominal cost, cost is its fair value. (IPSAS 17 paras 22 and 23) Subsequently, such an asset is measured either at “cost less any accumulated depreciation and any accumulated impairment losses”, or at “a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses”. (IPSAS 17 para 38 and 39) Initial recognition of assets acquired at no cost or for nominal consideration would result in revenue recognition during the period. If property, plant and equipment had already been recognized at zero, any revaluation increment would be recognized through revaluation reserves.	Initial recognition of existing assets are recorded as an other economic flow. Non-financial assets may be valued at their initial acquisition costs plus an appropriate revaluation for subsequent price changes and minus an allowance for consumption of fixed capital, amortization, or depletion. If an existing asset is no longer being produced, the cost of a similar replacement asset can be used. Observed prices of a similar asset can be used. (<i>GFSM 2001</i> para 7.26) Subsequent changes in stocks of naturally occurring assets due to natural growth and price movements are treated as other economic flows.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no action is required in relation to measurement on initial recognition. Link to other issues: Issues 8.4(g) to (i) in relation to whether the initial recognition is as a transaction or an other economic flow. Issue 7.1(b)(ii) in relation to correction of error when recognizing a subsequently found asset.
10.12 Depreciation vs. consumption of fixed capital	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. “The depreciation method used should reflect the pattern in	Depreciation is not recognized by the <i>GFSM 2001</i> . The relevant concept is consumption of fixed capital which is the decline during the course of an accounting period in	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no substantive action is required.

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	which the asset's economic benefits or service potential is consumed by the entity. The depreciation charge for each period should be recognized as an expense unless it is included in the carrying amount of another asset." (IPSAS 17 para 54)	the value of fixed assets owned and used by a public sector unit as a result of physical deterioration, normal obsolescence, or normal accidental damage. It is valued at the average prices of the period and is recorded as an expense. (<i>GFSM 2001</i> 6.33-6.38)		However, it is recommended that OECD Canberra II Group (Topic 23) clarify that alternatives to estimating capital consumption using the perpetual inventory method are acceptable. In particular that GAAP accounting depreciation can be used when it is on the right (current cost) valuation basis. (It is relevant to note that if the IPSAS option to adopt historical cost valuation of depreciable assets is retained and adopted, reconciliation would be required. It is also relevant to note that <i>GFSM 2001</i> identifies more depreciable assets than IPSASs, for example, certain biological assets and investment property).
10.13 IMF Special Drawing Rights (SDRs)	There is no IPSAS dealing with SDRs. Given the nature of SDRs, they would be recognized as assets and, to the extent they arise as a consequence of a non-exchange transaction, as revenue.	A SDR is a financial asset for which there is no corresponding liability, and members to whom they have been allocated do not have an unconditional liability to repay their SDR allocations. New allocations of SDRs are classified as other economic flows. SDRs are held only by the monetary authorities of IMF member countries. The value of the SDR is determined by the IMF as a weighted average of selected major currencies. (<i>GFSM 2001</i> paras 7.95 - 7.96) SDRs are not drawn down. The IMF issues the SDRs to member countries and they become assets of the members. The SDRs can be used, for example, to buy foreign currency from another member country.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no action is required. Link to other issues: Issue 10.6 "Subscriptions" to international organisations. Issue 8.4, generally, re whether they should be treated as transactions or other economic flows.
10.14 Prior period adjustments/back casting: voluntary changes in accounting policies	Currently, for voluntary changes IPSAS 3 "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies" (issued May 2000) requires retrospective application if the amount of the adjustment is reasonably determinable, and allows the adjustment to be made either to opening balances of accumulated surplus/deficit; or net surplus/deficit for the current period. (IPSAS 3 paras 60 & 65)	The treatment is the same as for other changes in the time series – see category 7.	Same as <i>GFSM 2001</i> .	Option for Convergence: It is recommended that no action is required.
10.15 Time of recording of tax revenue	There is no IPSAS on this topic. However the PSC issued an ITC "Revenue from Non-Exchange Transactions (Including Taxes and Transfers)" in early 2004 which considered the timing of recognition of taxes. The ITC proposed that taxes should be recognized as revenue when: (a) the taxable event occurs, that is the past event that gives rise to the control of resources; (b) it is probable that the future economic benefits or service potential will flow to the entity; and (c) the fair value of the economic benefits or service potential flowing to the entity can be measured reliably.	Tax revenue is recognized on an accrual basis – effects of economic events are recorded in the period in which they occur, i.e., at the time at which ownership of goods changes, services are provided, the obligation to pay taxes is created, the claim to a social benefit is established, or other unconditional claims are established. (<i>GFSM 2001</i> para 3.41) In some cases, the time when the activities, transactions, or other events occur that create government claims may not necessarily be the time at which the original event occurred, e.g., capital gains tax, legal decisions. (<i>GFSM 2001</i> para 5.21)	Same as <i>GFSM 2001</i> , but practical difficulties mean that cash is often recorded as a substitute.	Option for Convergence: It is recommended that no action is required currently. Although the standards agree on the principles, work being undertaken on implementation in the statistical and accounting professions may result in differences. Therefore, it is recommended that this issue is monitored. Furthermore, there may be a need for reconciliation re property taxes (when does <i>GFSM 2001</i> compared with IPSASs recognize property taxes as revenue?). Link to other issues: Issue 7.1(b) re back casting. Link to WGII: WGII (Topic 3) Tax revenue, uncollectible taxes, tax credits.

APPENDIX 1¹

UPDATING 1993 SNA: PROCESS AND ISSUES

SECTION A of APPENDIX 1

Introduction

The United Nations Statistical Commission (the Commission) gave the Intersecretariat Working Group on National Accounts (ISWGNA)² a mandate in 2003 to oversee the update³ of the 1993 System of National Accounts (SNA), with the objective of publishing revision 1 of the SNA in 2008. In this endeavor, the Advisory Expert Group⁴ on National Accounts to the ISWGNA (AEG), electronic discussion groups (EDGs), the Organisation of Economic Co-operation and Development (OECD) Canberra II Group on the Measurement of Non-financial Assets and a number of OECD and other task forces and country groups are all playing key roles.

The updating process of the 1993 SNA involves the ISWGNA and AEG assessing and evaluating the consistency between the SNA and other macroeconomic (financial) statistical standards such as the International Monetary Fund's (IMF's) Government Finance Statistics Manual 2001 (*GFSM 2001*) and liaising with the Task Force on Harmonization of Public Sector Accounting (TFHPSA) on potential revisions. Where feasible, the latest developments in international accounting standards are also to be taken into account. A coordination mechanism has been put in place, enabling government finance statistics (GFS) issues to be brought to meetings of various groups involved in the revision process and to the AEG.

Determination of issues for review

The ISWGNA submitted a list of potential issues for updating to the Commission's thirty-fourth session on March 4-7, 2003. The Commission endorsed the list of issues to be updated and recommended that it be open-ended to also include items such as consumer durables, the treatment of military equipment and return on capital assets of general government in order to ensure full accounting on general government.

The approved list of issues may be expanded on the basis of recommendations by, for example, individual countries and after approval by the AEG.

¹ This Appendix has been prepared using material on the ISWGNA website as at June 30, 2004: <http://unstats.un.org/unsd/nationalaccount/snarev1.htm>

² The list of acronyms on page 11 of this Research Report provides an explanation of the acronyms used in this Appendix.

³ The Commission mandated that the review of the 1993 SNA should not lead to fundamental changes and, therefore, should be considered an update rather than a full-scale revision. This limitation was set in order to prevent a widening statistical divide between countries at different stages of implementation of the 1993 SNA, and to avoid compromising international statistical comparability.

⁴ The ISWGNA (a permanent body) specifically established the AEG to support it in the process of updating the SNA. In conjunction with the ISWGNA, the AEG will be the decision-making body in the update process. The ISWGNA also created the Electronic Discussion Groups (EDGs).

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The criteria for approving the issues to be updated and the recommendations for updating include the following:

- (i) There should not be fundamental or comprehensive changes to the 1993 SNA that would impede the process of its implementation, which in many countries has not yet been achieved;
- (ii) Candidates for updating are issues that are emerging in the new economic environment;
- (iii) Candidates for updating are issues that are widely demanded by users;
- (iv) "Old" issues that were discussed and rejected in the 1993 revision process may need to be revisited in the new economic environment due either to their economic significance and/or to an advancement in methodological research that may justify a different treatment;
- (v) "Old" issues that were discussed and rejected in the 1993 revision process should not be candidates for updating if no change in the economic environment or progress in methodology research warrant their consideration for updating;
- (vi) Any recommendation for change should be internally consistent (with other components of the SNA) and be consistent with related manuals such as the IMF's *Balance of Payments Manual 1995* (BPM5) and *GFSM 2001*; and
- (vii) Any recommendation for change should address implementation (in countries).

Governance and decision-making process

As approved by the Commission, the ISWGNA is responsible for managing and coordinating the updating process. For the efficient execution of the governance and decision-making process, the AEG takes decisions on the scope of the updating and on technical and conceptual issues in conjunction with the ISWGNA, whose members fully participate in AEG meetings. The list of issues to be considered in updating the SNA is contained in Table 1. It includes issues identified by the TFHPSA (See Table 2 below).

Issues are first deliberated by expert groups, such as the Canberra II group on non-financial assets, city groups, regional commission meetings, EDGs, and possible new expert groups. The terms of reference for every expert group have been formulated with a deadline and a moderator to monitor the discussions and to prepare recommendations with, if possible, indications of the paragraphs of the current 1993 SNA that are impacted. These recommendations are submitted to the ISWGNA for discussion and final decision at the AEG meetings. The AEG will deliberate on the recommendations of the expert groups and propose for each group a final recommendation for clarification or change of the SNA. The AEG will strive for consensus to the highest extent possible. There will be voting if necessary, through written consultations or during its meetings. Those entitled to vote include members of the AEG and the ISWGNA (25 voting members). The recommendations of the AEG will be circulated by the ISWGNA to countries and/or regional commission meetings for discussion, and the final results will be consolidated by the ISWGNA.

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The ISWGNA will assess and evaluate the consistency of proposed changes with revision of the BPM5 and, to the extent possible, with the *GFSM 2001*. To this end, the ISWGNA will liaise with the IMF's Balance of Payments Committee and the TFHPSA. A formal mechanism has been put in place to coordinate the updating process. That mechanism consists of (a) coordination within the international organizations and countries, (b) identifying BPM5 and *GFSM 2001* consistency issues for consideration at national accounts meetings (which are held by various international agencies, such as the Commission and the OECD), and (c) inclusion of relevant issues in the agenda of the meetings of the AEG.

To ensure country involvement and general transparency of the development process, all documents for discussion in the meetings of the ISWGNA with the AEG will be publicly accessible through the ISWGNA's web site. These documents include preparatory papers, minutes of meetings, and conclusions. After each meeting, conclusions on proposed changes will be circulated to all United Nations (UN) member countries for their review, with a 60-day response period.

The recommendations for changes may include clarifications, interpretations and conceptual changes. The applicability of the recommendations should be considered feasible in a number of countries. Only the recommendations for changes approved by the majority of experts in the expert groups will be submitted to the AEG for approval, no later than the AEG meeting of November 2005. For those issues where the expert group has decided that no change is warranted or where no agreement has been possible the report should briefly summarize the proposals considered and the views expressed that led to that particular outcome.

Expert groups will consider specific issues during the 2003-2005 period. Tentatively, five meetings for the AEG are planned. The AEG will meet three times in 2004 and 2005 to consider the recommendations of the expert groups. A meeting of the AEG is planned for May 2006 to review the mutual consistency of the recommendations on the updated issues and the overall integrity of the system. A final meeting of the AEG will be held in 2007 to adopt the proposed changes, taking into account comments made by individual countries. The recommendations considered and tentatively agreed by the AEG will be sent to countries for comments after each meeting in 2004-2005. The consolidated recommendations for changes will be circulated to countries for comments in 2006 and submitted to the ISWGNA in tandem with the AEG for approval by March 2007.

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Table 1
1993 SNA updating

List of issues accepted for review by the AEG

For a brief description of each of these issues, see Section B of this Appendix.

	Issue	Responsible	Expected date for completion of recommendation to ISWGNA (as at June 30, 2004)
1	Repurchase agreements	IMF	November 2004
2	Employer retirement pension schemes	IMF	November 2004
3	Employee stock options	Eurostat	Completed February 2004
4	Valuation of non-performing loans and of loans and deposits		
4a	Non-performing loans	IMF EDG	November 2004
4b	Valuation of loans and deposits – write-off and interest accrual on impaired loans	BOP Committee	November 2004
5	Non-life insurance services	OECD Taskforce on measurement of non-life insurance services	November 2005
6	Financial services		
6a	Financial services:	OECD Taskforce on financial services	November 2005
6b	Allocation of the output of central banks	IMF	November 2004/5
7	Taxes on holding gains	Canberra II	Completed February 2004
8	Interest under high inflation	UNSD ⁵	November 2005
9	Research and development (R&D)	Canberra II	November 2005
10	Patented entities	Canberra II	November 2005
11	Originals and copies	Canberra II	November 2004
12	Databases	Canberra II	November 2004
13	“Other” intangible fixed assets – new information and specialized knowledge	Canberra II	November 2005
14	Cost of ownership transfer (COT)	Canberra II	November 2004
15	Cost of capital services: production account	Canberra II	November 2004
16	Government-owned assets	Canberra II	November 2004
17	Mineral exploration	Canberra II	November 2004

⁵ United Nations Statistical Department (UNSD)

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	Issue	Responsible	Expected date for completion of recommendation to ISWGNA (as at June 30, 2004)
18	Right to use/exploit non-produced resources between residents and non-residents	Canberra II and BOP Committee	November 2005
19	Military expenditures	Canberra II	Completed February 2004
20	Land	Canberra II	November 2004
21	Contracts and leases of assets	Canberra II	November 2005
22	Goodwill and other non-produced assets	Canberra II	November 2005
23	Obsolescence and depreciation	Canberra II	November 2005
24	Build-own-operate-transfer (BOOT) schemes	Canberra II	November 2005
25	Units		
25a	Ancillary units	UNSD to set up EDG	November 2005
25b	Institutional units a. Holding companies, special purpose entities, trusts; b. Treatment of multi-territory enterprises; c. Recognition of unincorporated branches	BOP Committee	November 2005
25c	Privatization, restructuring agencies, securization and special purpose vehicles (SPVs)	TFHPSA WGII	November 2004
26	Cultivated assets	Canberra II	Completed February 2004
27	Classification and terminology of assets	Canberra II	November 2005
28	Amortization of tangible and intangible non-produced assets	Canberra II	November 2005
29	Assets boundary for non-produced intangible assets	Canberra II	November 2005
30	Definition of economic assets	Canberra II	November 2005
31	Valuation of water	Canberra II	November 2005
32	Informal sector (part of the household sector as household enterprises or unincorporated enterprises owned by households)	UNSD/Delhi Group	November 2005
33	Illegal and underground activities	UNSD	November 2005

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	Issue	Responsible	Expected date for completion of recommendation to ISWGNA (as at June 30, 2004)
34	Super dividend, capital injections and reinvested earnings (government transactions with public corporations (earnings and funding))	TFHPSA WGII	November 2004
35	Tax revenues, uncollectible taxes, and credits (recording of taxes)	TFHPSA WGII	November 2004
36	Private/public/government sector delineation (sectorization boundaries)	TFHPSA WGII	November 2005
37	Activation of guarantees (contingent assets) and constructive obligations	TFHPSA WGII BOP Committee	November 2005
38 38a 38b 38c	Transaction concept Change of (economic) ownership (as term) Assets, liabilities and personal effects of individuals changing residence (“migrant transfers”) Application of accrual principles to debt in arrears	BOP Committee	November 2005
39 39a 39b 39c	Residence Meaning of national economy Predominant center of economic interest (as term) Clarification of non-permanent workers and entities with little or no physical presence and/or production	BOP Committee BOP Committee UNSD	November 2005
40	Goods sent abroad for processing	BOP Committee	November 2005
41	Merchanting	BOP Committee	November 2005
42	Retained earnings of mutual funds, insurance companies, and pension funds	BOP Committee	November 2005
43 43a 43b 43c	Interest and related issues Treatment of index-linked debt instruments Interest at concessional rates Fees payable on securities lending and gold loans	BOP Committee	November 2005
44	Financial assets classifications	BOP Committee	November 2005

Electronic Discussion Groups (EDGs) on the System of National Accounts

EDGs on the System of National Accounts were created by the ISWGNA to generate discussion and/or solicit views on topics that may require updates in the 1993 SNA. Each topic of discussion is administered by an expert associated with an international organization or a national statistics office. Some of the EDGs are closed already but are accessible/available for reference.

The EDG topics (and their related web site links) are:

1. Treatment of share (stock) options: <http://www1.oecd.org/std/shares.htm>.
2. Treatment of non-performing loans:
<http://www.imf.org/external/np/sta/npl/eng/discuss/index.htm>
3. Treatment of nominal holding gains and interest on financial assets (closed):
http://www.worldbank.org/data/working/iswgna_background.html.
4. Cost of transferring ownership of assets (closed): <http://www1.oecd.org/std/transfsna.htm>
5. EDG of Canberra II group on non-financial assets:
<http://webdomino1.oecd.org/COMNET/STD/Canberra.nsf/Welcome?openframeset>
6. EDG on financial services in the national accounts:
<http://webdomino1.oecd.org/std/finservice.nsf>
7. EDG on software (closed):
<http://webdomino1.oecd.org/std/software.nsf>
8. EDG on measurement of non-life insurance services:
<http://webdomino1.oecd.org/std/in-service.nsf>
9. EDG on the treatment of pension schemes:
<http://www.imf.org/external/np/sta/ueps/index.htm>

As EDGs 5 and 7 are not included in table 1 above, a brief description of each of them is included in Section C of this Appendix.

The TFHPSA has also established an EDG to deal with a range of issues relating to the general government sector (GGS). The matters dealt with by this EDG are outlined below.

EDG of the TFHPSA

The role of national accounts data in monitoring the GGS has increased substantially. This is particularly so in respect of the Maastricht criteria in Europe. Consequently, it is essential that the revised SNA is updated to provide detailed guidance on (1) the delineation of GGS and, (2) harmonized treatment of specific transactions of the GGS, such as capital injections and securitization. A special appendix or chapter on general government will be included in the SNA to deal with these matters. In developing this guidance it is intended to coordinate with the accounting principles of other international standards on public accounting such as the *GFSM 2001* and the International Public Sector Accounting Standards (IPSASs) of the International Federation of Accountants Public Sector Committee (IFAC-PSC) (now International Public Sector Accounting Standards Board (IPSASB)) where possible.

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The TFHPSA was created in October 2003 to promote the convergence between GAAP, IPSASs and *GFSM 2001* and convergence between *GFSM 2001*, 1993 SNA and European system of accounts (ESA95) (the statistical systems). The two Working Groups of the TFHPSA focus on financial reporting issues (WGI) and on the statistical systems (WGII). The TFHPSA will make recommendations on the treatment of financial reporting issues in government and public sector accounts to the AEG for the update of 1993 SNA review. WGI was charged with identifying differences between accounting and statistical bases of financial reporting and making recommendations for convergence where appropriate. The main body of this Research Report reflects the work of WGI.

The topics being considered by WGII are outlined in Table 2 below:

Table 2
TFHPSA WGII Issues

	Issue	AEG issue
1 1.1	Government transactions with public corporations Earnings (reinvested earnings, dividends) Funding (dividends and capital injections)	34
2 2.1 2.2	Privatization/restructuring agencies and SPVs Privatization Agencies, bad banks and other SPVs Securitization	25c
3 3.1 3.2	Tax revenue Tax revenue and accrual recording Tax credits	35
4 4.1 4.2	Private/public/government sector delineation Public vs. private: the definition of control (including BOOT schemes) Government vs. other public sector: the market/non-market criterion	36
5	Contingent assets/guarantees/provisions/constructive obligations Guarantees and loan partitioning	37

The web address of the EDG of the TFHPSA is as follows:

<http://webdomino1.oecd.org/comnet/std/harmonise.nsf?opendatabase>

SECTION B of APPENDIX 1

Summary descriptions of issues accepted for review by the AEG and conclusions on issues discussed at the first meeting of the AEG, February 16-20, 2004

1. Repurchase agreements

A repurchase agreement (repo) involves the sale of securities or other assets with a commitment to purchase those or equivalent assets at a specified price. The right to on-sell has become almost universal. The 1993 SNA and the BPM5 treat the repos similarly to that of a collateralized loan or as other deposits if repos involve liabilities classified under national measures of broad money. Should the 1993 SNA treatment be revised?

2. Employer retirement pension schemes

In the 1993 SNA, promises to pay pension benefits in the future are not recognized as liabilities of social security schemes and unfunded employer schemes. The review will investigate the analytical relevance of recording these liabilities in the national accounts and, if appropriate, formulate recommendations regarding their valuation and measurement. The review will also formulate proposals to reconcile the recommendations of the 1993 SNA and the *GFSM 2001* regarding the treatment of unfunded employer pension schemes.

3. Employee stock options

Employee stock options are a common incentive used by companies to motivate their employees. Given that the 1993 SNA does not provide guidance on this issue, the question raised is whether stock options should be considered as compensation of employees and therefore as a cost to employers. Experts at an OECD meeting on national accounts in October 2002 arrived at the consensus to include employee stock options in compensation of employees. Further harmonization with international business accounting standards is required.

AEG conclusion: The AEG approved four main recommendations: treatment of employee stock options as compensation of employees; spreading of the acquisition by employees of these options between the grant and vesting dates if possible ; valuation of the options at market price, or by using a suitable option pricing model; and the recording of the options in the financial accounts as a financial instrument category entitled “financial derivatives and employee stock options”, with subcategories for financial derivatives and employee stock options.

4. Valuation of non-performing loans and of loans and deposits

4a. Non-performing loans

The issue is to what extent unpaid interest on non-performing loans should be accrued. The SNA uses an indirect measure (financial intermediation services indirectly measured (FISIM)) of the value of the services for which financial intermediaries do not charge explicitly. FISIM based on unpaid interest may affect the Gross Domestic Product (GDP). The review will determine what criteria should be applied to writing-off non-performing loans and will ensure that such criteria

are consistent with the requirements of other major macroeconomic statistical systems (balance of payments, government finance, and money and banking statistics).

4b. Valuation of loans and deposits - write-off and interest accrual on impaired loans

The issue is the appropriate valuation basis for loans and deposits. There are alternative perspectives on the valuation of loan positions and deposits. Nominal or face value valuation might be misleading because of the risk of default and/or changes in interest rates. The difference between different valuation perspectives becomes apparent when the loans are traded. These valuation issues are equally applicable to non-traded loans. The business accounting standards are considering using the concept of “fair value” for the valuation of loans.

5. Non-life insurance services

This issue is devoted to the measurement of non-life insurance services, with a special focus on the treatment of catastrophic losses. The output of insurance services as calculated using the 1993 SNA algorithm depends on the balance of premiums to claims (on an accrual basis) and can therefore be extremely volatile (even negative) following major catastrophes. The massive claims generated by the September 11 terrorist attack, is a recent example. It had impacts on GDP and balance of payments (reinsurance). The objective of the review is to propose measures that would be more consistent with the perception of production in this activity. In particular, medium to long-term aspects of non-life insurance are to be taken into consideration.

AEG conclusion: The AEG accepted the recommendation to continue to use a formula based on the difference between premium (plus premium supplements) and claims, but to use adjusted claims and, optionally, adjusted premium supplements in this formula in order to correct for the volatility of observed flows.

6. Financial services

6a. Financial services

This issue is devoted to the measurement of the output of financial intermediation services and portfolio management in the national accounts. The business of financial corporations has undergone a structural transformation, with an increase in the importance of the portfolio management of financial assets. This generates holding gains and losses that, typically, national accounts exclude from the production boundary and therefore income. The review will consider whether and how the production boundary can be adapted to this increasing activity, and how this could influence income.

6b. Allocation of output of central banks

The measurement of the outputs of central banks at cost as an alternative to the current basis of measurement (the difference between property income receivable less interest payable) will be reviewed. Allocation of the output of central banks will also be discussed.

AEG conclusion: The AEG agreed that, because of the unique functions that may be performed by central banks, the value of their output obtained by the method recommended by the 1993 SNA (the difference between property income receivable less interest payable) can be volatile

and may be negative. In such cases, the output of central banks or at least part of the output could be measured at cost. Further work is needed to clarify these cases. This does not imply reclassifying the central bank to the government sector. Clarification is also needed of which sectors consume the output of the central bank.

7. Taxes on holding gains

Taxes on capital gains are treated as taxes on income and deducted from income while the tax base (the realized holding gains) is not included in the 1993 SNA definition of income. Is this a contradiction that should suggest alternative treatments or should the SNA treatment remain the same?

AEG conclusion: There is to be no change to the SNA. Taxes on holding gains will continue to be classified as current taxes on income and wealth, but should be shown as a special sub-category.

8. Interest under high inflation

The 1993 SNA provides guidance on the treatment of nominal holding gains and interest on financial assets under conditions of high inflation. The issue is whether the current SNA treatment needs to be revised or updated. The AEG agreed that inflation accounting is an important alternative to the core accounts and that the 1993 SNA (Annex B) should be rewritten to include various approaches for compiling satellite accounts.⁶

9. Research and development (R&D)

The SNA currently does not recognize the output of R&D as capital formation. If all R&D covered by the Frascati Manual⁷ are to be included as assets, the practical difficulties of deriving satisfactory estimates have to be addressed. These include, using expenditure data collected as per the Frascati Manual, and obtaining appropriate deflators and service lives. If these difficulties can be satisfactorily overcome, then a proposal is likely to be made to the effect that the 1993 SNA should be amended to treat R&D expenditure in a similar way to mineral exploration (see Topic 17).

10. Patented entities

In the 1993 SNA “patented entities” (items patented) are treated as non-produced intangible assets. However, payments received from users of the patent are by convention recorded as output of services similar to rentals from the lease of fixed assets. This is contrary to payment received from other non-produced assets such as land. Should R&D costs and the original assets derived from R&D be linked or capitalized separately? Furthermore, how should original assets be valued and what types of price indexes should be used to deflate the output of services from patented entities?

⁶ As there are limitations on the amount of information that can be accommodated in the central framework of the national accounts, satellite accounts can be prepared to provide additional information on particular social concerns of a functional or cross-sector nature.

⁷ The OECD’s Frascati Manual 2002 provides a methodology for collecting and using research and development statistics.

11. Originals and copies

This topic considers, for example, production of books, recordings, films, and software, and subsequent production and use of copies of the original. The issue is how expenditures on originals and copies should be recorded, and whether both should be recorded as expenditure (on new goods) on the basis that originals are distinct from copies, or whether originals should be considered as being analogous to a ‘stock’ of copies, and so expenditure on a copy partly (or mostly) reflects a sale of an existing good. Furthermore, how should the transactions in copies be recorded?

12. Databases

The 1993 SNA recommends that large databases should be capitalized. The issue is whether the SNA should provide a clear definition of databases to be capitalized, covering characteristics such as size and marketability of the data as well as the database itself?

13. “Other” intangible fixed assets – new information and specialized knowledge

The 1993 SNA mentions these “not-elsewhere classified items” in the Annex of Chapter XIII. They are restricted to the units that have established ownership rights over the intangible fixed assets, or to other units licensed by those units that have established the ownership rights. The issue is what is intended to be included in other intangible fixed assets.

14. Cost of ownership transfer (COT)

The principal focus of this issue has been on whether the COT of fixed assets should be expensed or capitalized. The issue has since broadened to include issues such as, if COT is to be capitalized what should be the service life of the COT, how should we treat COT when the underlying asset is sold by the original owner, and, by extension, how should we treat the termination costs of the underlying asset.

AEG conclusion: The COT should be written off over the period during which the acquirer expects to hold the asset.

15. Cost of capital services: production account

Capital services provided by fixed assets to the production process are not explicitly defined by the 1993 SNA. The OECD’s manual “Measuring Capital” defines capital inputs as the actual or estimated pure economic rent payable measured as the sum of depreciation and the capital, or interest, costs.

The issue is how capital services should be defined in the SNA. Should it be rental or pure economic rent? Given the latter definition, the capital services of rented produced fixed assets are only part of the rental paid by the user to the owner (the remainder being the costs incurred by the renter in providing the service), and which appear in the SNA as intermediate input. Likewise, the capital services of rented non-produced assets are only a part of the rent paid, and appear in the SNA as part of gross operating surplus.

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For own-use fixed assets, capital services appear as part of the gross operating surplus. A second issue considered as part of this topic is how should capital services be shown in the accounts for productivity analysis purposes? Should the treatment of capital services be introduced into the core of the SNA or be treated in a satellite account?

16. Government-owned assets

Services from government-owned assets, which are used in the production of government services are reflected in the output of the government services only as consumption of fixed capital. This means that neither return on capital to these assets nor opportunity cost is recognized. The issue is, should the 1993 SNA treatment of imputed output to the general government activity remain the same or should capital services be included?

17. Mineral exploration

Expenditures on mineral exploration are classified as gross fixed capital formation. The rationale is that mineral exploration creates a stock of knowledge about the reserves that is used as input in future production activities. The issue is whether this knowledge should be seen as independent of the stock of economically exploitable reserves, or whether this leads to double counting when both discovered stocks of resources, and stock of exploration, are capitalized.

18. Right to use/exploit non-produced resources between residents and nonresidents

Except for land, transactions arising from the right to use or exploit non-produced resources between residents and non-residents have not been fully elaborated by the 1993 SNA. For land, a notional resident unit is created which is deemed to purchase the land while the non-resident is deemed to purchase a financial asset (equity) of the notional unit. Should other non-produced resources such as water and fish be treated in the same way as land or should there be different treatments?

19. Military expenditures

The 1993 SNA divides military assets into those that can be used for civilian purposes and those that can only be used for military purposes. The former are treated as gross capital formation, the latter as intermediate consumption. This treatment does not provide an appropriate accounting system for existing weapons as weapons that have already been expensed can actually be taken out of stock for use or for export. The issue is whether the line between gross capital formation and intermediate consumption should be drawn differently.

AEG conclusion: Expenditure on military weapons systems is to be included in gross fixed capital formation and presented separately to other types of gross fixed capital formation.

20. Land

The SNA currently records improvements to land as gross fixed capital formation, but in the balance sheet such improvements are included with land itself – a non-produced asset. The issue is, should land be split into two, with one part recorded as a fixed asset and the other part recorded as a non-produced asset? If so, how should the separation be made? One option is to distinguish between land that is in, or nearly in, its natural state as a non-produced asset and the

remainder as a fixed asset. Another option is to separate land from the improvements made to it, and record the former as a non-produced asset and the latter as a fixed asset.

21. Contracts and leases of assets

Contracts and leases of tangible assets are defined by the 1993 SNA. However, the treatment of intangible non-produced assets is not clear. These assets comprise:

- Government tradable leases/licenses such as casino licenses, taxi permits, foreign trade licenses and emission permits;
- Non-government tradable contracts (options to buy not yet produced assets; and service/employment contracts on authors, football players and other performers, etc.); and
- Subcontracting to third parties of tradable leases/contracts/licenses, franchises and goodwill.

The issue is, should and under what conditions should a lease/license/contract on non-produced assets be treated as a sale or rent of the asset? Should the criteria provided by the ISWGNA on mobile phones be applied, or should they be further elaborated? Should a legal construct be recognized as a non-produced asset when it is signed? How should one treat a change in the market prices of a lease or contract when its value is different from the discounted sum payable? If it is recognized as an asset, should it be treated as a financial derivative or a non-produced asset? Should the concept of financial leases be broadened to include assets that are not leased for their service life?

22. Goodwill and other non-produced assets

The 1993 SNA only records purchased goodwill, and it treats purchased goodwill for corporations and unincorporated enterprises differently. The issue is, should goodwill continue to be recognized only when purchased or should internally generated goodwill be recognized? In addition, should purchased goodwill be treated the same way for corporate and unincorporated enterprises and should the balance sheet recognize assets such as brand names, trademarks and franchises?

23. Obsolescence and depreciation

Consumption of fixed capital (i.e. depreciation) is defined in the 1993 SNA in general terms 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. It is referred to as time series depreciation because it is defined in terms of the change in value of an asset over time. An alternative notion of depreciation, called cross section depreciation, is defined to be the difference in value of two assets that are identical, except one is older than the other by the same length of time as the accounting period. Cross section depreciation is used in the derivation of estimates of multifactor productivity, and it seems that in practice, most, if not all, countries estimating depreciation are in fact applying this definition. The issue is, should time series depreciation continue to be the notion of depreciation defined in the 1993 SNA and, if so, how should it be applied?

24. Build-Own-Operate-Transfer (BOOT) schemes

A BOOT scheme is a scheme in which a private enterprise builds or purchases a facility that provides services for the general public (such as a toll booth, highway, prison or electric generating facility) at its own cost in return for the right to operate it and to charge a regulated fee that allows it to earn a net profit for an agreed length of time. At the end of the agreed period, the ownership of the facility is transferred to the government without compensation. The issue is, should SNA provide guidance on the treatment of various BOOT schemes?

25. Units

25a. Ancillary units

The issue is how should the costs of ancillary activities be treated. The concept of ancillary units pertains to non-productive units and the costs of ancillary activities carried out centrally should be distributed over the establishments they serve. Following this approach, head offices and other ancillary units would disappear from the regions in which they are located and understate the regions' GDP. The ESA95 deals with the above situation by stating that "ancillary activities may be carried out in separate locations, located in another region than the local KAU's they serve. The strict application of the rule (ancillary activities should be integrated with local KAUs they serve) for the geographical allocation of the ancillary activities would result in the underestimation of the aggregates in the regions where ancillary activities are concentrated. Therefore according to the principle of residence, they have to be allocated to the region where the ancillary activities are situated"⁸. However, ESA95 does not present a mechanism for achieving this regionalization scheme and further discussions are needed to work toward a clearly spelled-out convention.

25b. Institutional units

A related issue is the present treatment of ancillary corporations as an integral part of the parent corporation, and not as a separate institutional unit. However, in some circumstances separate entities have been established for the purpose of holding assets or liabilities without entering into production. Such special purpose entities may adopt different legal structures and are set-up for specific purposes such as managing portfolios of assets and debts and to facilitate restructuring of agencies. They may be shell companies, limited liability partnerships or trusts. Additional guidance is needed on whether to treat them as separate institutional units. Similarly, with the appearance of multi-territory enterprises that operate as a single legal entity in more than one territory, guidance is needed on whether to allocate the unit to the predominant territory or to use pro rata splitting. Principles established for recognizing these ancillary units as separate institutional units should take into account different residency and the institutional sector of the (ultimate beneficiary) owner, sources of information, etc. Moreover, the sectorization of those units has to be determined.

⁸ A local kind-of-activity unit (KAU), being a grouping of like activities, is called an establishment in the 1993 SNA.

25c. Privatization, restructuring agencies, securitization and special purpose vehicles (SPVs)

The issues relate to privatization, agency restructuring, and securitization [i.e. the government-financial intermediation boundary]. The classification by sector of the following entities requires clarification:

- *Ad hoc* structures specialized in managing portfolios of assets or debts;
- Agencies established to manage portfolios of assets (financial or nonfinancial) to be privatized and/or disposed of;
- Restructuring agencies (sometimes called “bad banks”) that acquire non-performing loans or other impaired assets from banks (public or private) in distress above the market price, allowing the latter to exhibit a satisfactory solvency ratio (Cooke ratio⁹); and
- Special Purpose Vehicles (SPVs) created by governments, possibly registered abroad, which borrow on the market and acquire “assets” from governments, such as flows of future revenue (tax).

Are such entities financial intermediaries, government units, or simply ancillary units? A related issue is how to record their transactions with government, such as privatization proceeds or of realized losses (see issue 34).

26. Cultivated assets

During the System of Economic and Environmental Accounts discussions, it was agreed that the present definition of cultivated assets in the 1993 SNA is ambiguous. The issue is whether the 1993 SNA’s definition should be tightened as follows: “cultivated assets cover livestock for breeding, dairy, draught, etc. and vineyards, orchards and other trees yielding repeat products *whose natural growth and regeneration is* under the direct control, responsibility and management of institutional units”. The words in bold italics replace the words “that are” in the SNA.

27. Classification and terminology on assets

The issues are whether the classification of assets should be revised in line with the review of other issues such as leases and licenses, and whether the tangible/intangible dichotomy should be suppressed.

28. Amortization of tangible and intangible non-produced assets

The final report of the ISWGNA on mobile phone licenses includes a brief discussion of the issue of the amortization of intangible non-produced assets. The issue is whether this matter should be further elaborated for various types of non-produced assets, such as contracts, leases, goodwill and others.

⁹ The Cooke ratio for banks is the equity position as a percentage of risk-weighted assets (Basel accords).

29. Assets boundary for non-produced intangible assets

The issue is whether instruments for the securitization of future receipts of government should be regarded as intangible non-produced assets.

30. Definition of economic assets

The issue is the development of a clear definition of what constitutes an asset for purposes of the SNA. That definition should be consistent with the asset boundary in respect of currently known entities, as well as providing guidance for determining whether entities which appear in the future are assets. The definition should also be accompanied by guidance on how assets should be valued.

31. Valuation of water

The issue is, when water is no longer a free resource, how the charge for it should be treated. Should it be treated as giving rise to rent in a similar way to land or mineral resources? This issue is complicated by the fact that a large part of the charge is distribution costs.

32. Informal sector (part of the household sector as household enterprises or unincorporated enterprises owned by households)

Guidance on the distinction between the “formal” and “informal” sectors is included as an annex (to chapter IV) in the 1993 SNA. This guidance may be useful to those countries that wish to introduce the distinction between formal and informal sectors into their sub-sectoring of the households sector or to identify the informal sector dimensions in the production structure.

The issue is whether this annex needs revision in light of the work undertaken by the Delhi Group on Informal Sector Statistics and related work on international standards for the measurement of the non-observed economy by international organizations including the International Labour Organization, United Nations Economic Commission for Europe, IMF and OECD.

33. Illegal and underground activities

The 1993 SNA makes no distinction between legal and illegal transactions as long as the exchanges are occurring with mutual consent. While obtaining credible information on illegal transactions will be very difficult, their exclusion will introduce errors in the accounts including the balancing items. The 1993 SNA draws a distinction between illegal activities and underground activities – the latter activities are defined as those that are concealed from the public authorities for various reasons such as evasion of taxes, health and safety regulations. Both the illegal and underground activities may in some countries be a significant part of the economy. It is therefore particularly important to estimate the production from underground and illegal activities even if they may not always be separately identified. This issue is directed at developing a summary of best practices-based country experiences and providing further guidelines on their treatment in the SNA.

34. Super dividend, capital injections and reinvested earnings (government transactions with public corporations (earnings and funding))

The issue is the treatment of dividends (losses) of corporations (quasi-corporations) and their controlling shareholders. Particular attention will also be given to the treatment of transactions between public corporations and government. Matters to be considered include whether:

- Accrued profits and losses of all public corporations should be treated on a similar basis as the reinvested earnings of resident foreign direct investment enterprises with non-resident shareholders;
- Super dividends (being lump sums paid by public corporations to government that exceed operating profits for the year in question) or other lump sum payments made to the government should be treated as financial transactions. Treatment of these payments as nonfinancial transactions would allow governments to manipulate the timing of recording. However, when treated as financial transactions this manipulation would not be possible. Capital injections should be expensed to the extent that they represent compensation for past and future losses of public corporations, but as financial investment otherwise.

35. Tax revenues, uncollectible taxes and tax credits (recording of taxes)

The issue is whether tax credits should be recognized as an expense – tax revenue would then be recognized on a gross basis. Separating tax credits from tax revenue is problematic given that source data may not allow separate identification of expenses.

Related issues are how to deal with uncollectible taxes. Such taxes would not qualify for recognition as accrued revenue. Possible approaches include deducting an estimated uncollectible amount based on past experience from the gross amount under the accrual principle (“net recording”), recording uncollectible amounts as a capital transfer (“gross recording”) or recording unpaid taxes via the other change in volume accounts.

The time of recording is also an issue for income and wealth tax. For instance, for households it might be preferred to record the taxes at the time of assessment because it affects behavior at that time. This treatment would be a deviation from the accrual principle in the 1993 SNA that calls for recording taxes when the obligation to pay arises.

36. Private/public/government sector delineation (sectorization boundaries)

The issue is how to strengthen the definition of control in the 1993 SNA to clarify the public sector boundary, particularly in respect of the classification of special purpose vehicles (SPV), created in the context of public private partnerships (PPP) or securitization. Other areas for consideration under this issue include clarifying the:

- Significance of the “mainly financed” concept for determining whether a nonprofit institution is controlled; and
- Market versus non-market distinction. The distinction between government and public corporations might be based on a legal status or whether production takes place at economically significant prices. The ESA95 has established a rigid rule of 50 percent of the costs to be covered by sales. Is the 50 percent high enough?

37. Activation of guarantees (contingent assets) and constructive obligations

This issue relates to the treatment of flows between the original debtor and creditor, and between the original debtor and guarantor, when the guarantee is activated; or between debtor and creditor when collateral is called by the creditor. The 1993 SNA does not include a treatment for these flows. However, *GFSM 2001* describes the treatment of debt assumption involving general government being either the acquisition of a financial asset, acquisition of equity, capital transfer, or other volume changes. In addition, this issue addresses the recognition of constructive obligations, which are not legally enforceable liabilities but are nevertheless expected to result in outflows. The recognition of the latter would result in the relaxation of the economic asset boundary.

38. Transaction concept

38a. Change of (economic) ownership (as term)

The principle of ownership is central to the determination of the timing of recording of transactions in financial and non-financial assets (including transaction in goods) in the 1993 SNA. However, the 1993 SNA does not explicitly define ownership. The term “economic ownership” better reflects the underlying economic reality of the transaction where risks and rewards of ownership lie.

38b. Assets, liabilities and personal effects of individuals changing residence (“migrant transfers”)

The flows of goods and changes in financial account arising from a change in residence of individuals are treated as imputed transactions in the BPM5, which are offset in the capital account by capital transfers called migrants’ transfers. The 1993 SNA is not explicit on the treatment of these flows. Because no change in ownership occurs, it is proposed that changes in financial claims and liabilities due to change in residence of individuals be treated as reclassification in other changes in volume account.

38c. Application of accrual principles to debt in arrears

The time-of-recording principle for a scheduled payment is different in, on the one hand BPM5, the IMF’s *External Debt Guide*, and *GFSM 2001*; and, on the other, the 1993 SNA. The first group uses the due-for-payment date basis, which involves imputing a transaction that the liability has been repaid and replaced by a short term debt. The 1993 SNA uses the accrual basis which involves no imputation of transactions but continues to show arrears in the same instrument until the liability is extinguished. If the accrual basis is followed, sub-headings or memorandum items for all or selected arrears might be introduced.

39. Residence

39a. Meaning of national economy

The concept of a national economy is closely related to the concept of residence. In the 1993 SNA, it is discussed in terms of “economic territory of a country” for which two contradicting criteria are used: “administration by a government” and “free circulation of persons, goods and capital”. This needs to be clarified as does the difference between 1993 SNA references to the domestic and national economy.

39b. Predominant center of economic interest (as term)

With globalization, there is an increasing number of institutional units with connections to two or more economies. The concept of “predominant” center of economic interest is being developed to address this issue.

39c. Clarification of non-permanent workers and entities with little or no physical presence and/or production

The issue is how to determine the jurisdiction for classification of these workers and entities given that production and location might not be useful criteria. As a result, it is proposed that the jurisdiction that allows the creation of and regulates the entity will be considered as the entity’s predominant centre of interest. In case of nonpermanent workers with connections to two or more territories, it would also be useful to prepare supplementary presentation for countries where the number of non-permanent resident persons is significant, bringing together relevant components of contract services, compensation of employees, workers’ remittances and migrants’ transfers with short-term non-resident workers. Similarly, harmonization of the residence concept with demographic, tourism, and migration statistics would be useful, and any remaining differences could be spelt out.

40. Goods sent abroad for processing

The BPM5 and the 1993 SNA treat goods sent abroad for processing differently. The BPM5, as a practical matter, suggests a convention that all processing be assumed substantial and therefore gross flows are recorded. The 1993 SNA only records gross flows in cases of substantial processing (reclassification of the good at three digit Central Product Classification). However, no change in ownership, and thus no transaction, takes place. Moreover, it is not clear whether a distinction can be made between the different levels of processing. The issue is whether the current treatment in the 1993 SNA is appropriate. The current treatment of goods for processing in the 1993 SNA was introduced to facilitate input-output analysis. Therefore, any change should take into account this issue.

41. Merchanting

“Merchanting” is a term used in BPM5 for the activity of trading in goods that do not enter the territory of the trader. In such case, the treatment is to report only the margin earned in the territory of the trader. In case the trade is not concluded during the accounting period, changes in inventories are shown as imports (negative if inventories decrease). The issue is not covered in the 1993 SNA.

42. Retained earnings of mutual funds, insurance companies, and pension funds

In the 1993 SNA, retained earnings of an entity are generally treated as the income and saving of the entity, rather than the owner. However, exceptions are made for life insurance companies, pension funds and foreign direct investment companies, where there is an imputed flow to the policyholders, beneficiaries, and owners, with an equal financial account flow. The ESA95 introduces an imputed transaction for the retained earnings of the mutual funds where income is attributed to the investors and then reinvested in the fund. That treatment brings about some consistency with the treatment of life insurance and pension funds which are other types of

collective investment schemes. The issue is whether the 1993 SNA should be revised. More generally, there has been suggestions put forward for the possible expansion or reduction of circumstances where the treatment of reinvested earnings could be applied. In dealing with this matter, the treatment of negative earnings will also be addressed.

43. Interest and related issues

43a. Treatment of index-linked debt instruments

For index-linked debt instruments, changes in principal arising from indexation are recorded as interest. The issue is whether both creditor and debtor approaches for index-linked debt instruments should be clarified. In addition, the 1993 SNA, BPM5 and other manuals mention exchange rates as one of various indicators to which indexation can be linked. However, they are not explicit on whether debt instruments with both principal and interest indexed to a foreign currency should be treated similarly to index-linked instruments or to foreign currency debt instruments.

43b. Interest at concessional rates

The issue is treatment of concessional rates. Loans with concessional interest rates could be seen as providing a current transfer equal to the difference between the concessional interest and the market equivalent. If such transfers are recognized, interest recorded would be adjusted for the same amount. Concessional rates in commercial and international assistance programs should be distinguished because in commercial situations these rates are used to encourage purchases.

43c. Fees payable on securities lending and gold loans

Neither the 1993 SNA or BPM5 discuss the issue of fees payable on securities lending and gold loans. The fee for securities lending is for putting a financial instrument at the disposal of another unit, but it does not fit with the definition of interest when the legal ownership is transferred but the economic risks and rewards of the ownership remain with the original owner. The fee payable on gold loans appears to be a payment for services as gold in this instance is non-monetary gold. The issue is the treatment of such fees.

44. Financial assets classifications

This topic includes clarification of a number of related asset classification issues. With financial derivatives treated as a separate instrument in the 1993 SNA, it would be appropriate to introduce the term “debt securities” to replace “securities other than shares”. Moreover, all types of financial derivatives are currently treated as a single item but there is an interest in splitting derivatives in forwards and options, given their different behavior. Further, considerations are to be given to the introduction of employee stock options (Topic 3). This topic also includes consideration of whether non-monetary gold should be classified as a financial asset rather than under valuables in the asset classification. Classification of non-monetary gold being as a financial asset would allow for the gold transactions to be netted, in line with financial transactions. Moreover, as a consequence, fees payments to owners under gold loans would be classified as property income rather than a service.

SECTION C of APPENDIX 1

Brief description of EDGs dealing with additional issues (not described in section B)

1. EDG of Canberra II group on non-financial assets:

<http://webdomino1.oecd.org/COMNET/STD/Canberra.nsf/Welcome?openframeset>

This EDG deals with three broad issues: (1) conceptual issues mainly linked to intangible assets; (2) measurement issues related to research and development (R&D – related to AEG Topic 9) in the framework of the national accounts; and (3) obsolescence, capital input and measurement issues associated with constructing data series of the stocks, depreciation, and capital services of tangible and intangible fixed assets (related to AEG Topics 9-11, 13, 23, 28, 29).

2. EDG on software:

<http://webdomino1.oecd.org/std/software.nsf>

This EDG is devoted to discussions on the implementation of the 1993 SNA recommendation to capitalize software (and is related to AEG Topic 11). Studies have shown that statistical offices have varied considerably in the practical measurement of gross fixed capital formation in software, with a significant impact on GDP. The objective of this joint OECD/Eurostat task force was to produce a set of recommendations that would lead to better international comparability. The final report of the OECD task force was submitted and approved at the OECD National Accounts Expert meeting of October 8-11, 2002. The ISWGNA supported the recommendations of the task force. The main recommendations regarding conceptual issues were the following. Original and reproductions of this original are two separate entities, and should be capitalized separately. All own-account software (including originals for reproduction) is to be considered as investment, and should be valued on the basis of full costs. Licences to use (equally called reproductions) should be treated as investment, except if they are intended for bundling/embedding (intermediate consumption). Rental payments for software intended for use of more than one year are treated as investment.

Concerns were expressed at the OECD National Accounts Expert meeting that the recommendations could lead to double counting of the investment. This issue was forwarded to the Canberra II Group.

APPENDIX 2

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS AND INVITATIONS TO COMMENT – as at June 30, 2004.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSASs – Accrual Basis)

IPSAS 1 *Presentation of Financial Statements* sets out the overall considerations for the presentation of financial statements, guidance for the structure of those statements and minimum requirements for their content under the accrual basis of accounting.

IPSAS 2 *Cash Flow Statements* requires the provision of information about the changes in cash and cash equivalents during the period from operating, investing and financing activities.

IPSAS 3 *Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies* specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors, defines extraordinary items and requires the separate disclosure of certain items in the financial statements.

IPSAS 4 *The Effects of Changes in Foreign Exchange Rates* deals with accounting for foreign currency transactions and foreign operations. IPSAS 4 sets out the requirements for determining which exchange rate to use for the recognition of certain transactions and balances and how to recognize in the financial statements the financial effect of changes in exchange rates.

IPSAS 5 *Borrowing Costs* prescribes the accounting treatment for borrowing costs and requires either the immediate expensing of borrowing costs or, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

IPSAS 6 *Consolidated Financial Statements and Accounting for Controlled Entities* requires all controlling entities to prepare consolidated financial statements which consolidate all controlled entities on a line by line basis. The Standard also contains a detailed discussion of the concept of control as it applies in the public sector and guidance on determining whether control exists for financial reporting purposes.

IPSAS 7 *Accounting for Investments in Associates* requires all investments in associates to be accounted for in the consolidated financial statements using the equity method of accounting, except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case the cost method is required.

IPSAS 8 *Financial Reporting of Interests in Joint Ventures* requires proportionate consolidation to be adopted as the benchmark treatment for accounting for such joint ventures entered into by public sector entities. However, IPSAS 8 also permits – as an allowed alternative – joint ventures to be accounted for using the equity method of accounting.

IPSAS 9 *Revenue from Exchange Transactions* establishes the conditions for the recognition of revenue arising from exchange transactions, requires such revenue to be measured at the fair value of the consideration received or receivable and includes disclosure requirements.

RESEARCH REPORT ON IPSASs AND STATISTICAL BASES OF FINANCIAL REPORTING:
AN ANALYSIS OF DIFFERENCES AND RECOMMENDATIONS FOR CONVERGENCE

IPSAS 10 *Financial Reporting in Hyperinflationary Economies* describes the characteristics of a hyperinflationary economy and requires financial statements of entities which operate in such economies to be restated.

IPSAS 11 *Construction Contracts* defines construction contracts, establishes requirements for the recognition of revenues and expenses arising from such contracts and identifies certain disclosure requirements.

IPSAS 12 *Inventories* defines inventories, establishes measurement requirements for inventories (including those inventories which are held for distribution at no or nominal charge) under the historical cost system and includes disclosure requirements.

IPSAS 13 *Leases* establishes requirements for the accounting treatment of operating and finance leasing transactions by lessees and lessors.

IPSAS 14 *Events After the Reporting Date* establishes requirements for the treatment of certain events that occur after the reporting date, and distinguishes between adjusting and non-adjusting events.

IPSAS 15 *Financial Instruments: Disclosure and Presentation* establishes requirements for the presentation of on-balance-sheet financial instruments and identifies the information that should be disclosed about both on-balance-sheet (recognized) and off-balance-sheet (unrecognized) financial instruments.

IPSAS 16 *Investment Property* establishes the accounting treatment, and related disclosures, for investment property. It provides for application of either a fair value or historical cost model.

IPSAS 17 *Property, Plant and Equipment* establishes the accounting treatment for property, plant and equipment, including the basis and timing of their initial recognition, and the determination of their ongoing carrying amounts and related depreciation. It does not require or prohibit the recognition of heritage assets.

IPSAS 18 *Segment Reporting* establishes requirements for the disclosure of financial statement information about distinguishable activities of reporting entities.

IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* establishes requirements for the recognition of provisions, and the disclosure of contingent liabilities and contingent assets.

IPSAS 20 *Related Party Disclosures* establishes requirements for the disclosure of transactions with parties that are related to the reporting entity including Ministers, senior management, and their close family members.

Glossary of Defined Terms (IPSAS 1-IPSAS 20) identifies the terms defined in IPSASs on issue at 31 December 2003.

CASH BASIS IPSAS AND TRANSITIONAL GUIDANCE

CASH BASIS IPSAS *Financial Reporting Under the Cash Basis of Accounting* is a comprehensive IPSAS on financial reporting under the cash basis. It establishes requirements for the preparation and presentation of a statement of cash receipts and payments and supporting

RESEARCH REPORT ON IPSASs AND STATISTICAL BASES OF FINANCIAL REPORTING:
AN ANALYSIS OF DIFFERENCES AND RECOMMENDATIONS FOR CONVERGENCE

accounting policy notes. It also includes encouraged disclosures which enhance the cash basis report.

IFAC PSC Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities 2nd Edition (December 2003)* identifies key issues to be addressed and alternate approaches that can be adopted in implementing the accrual basis of accounting in an efficient and effective manner in the public sector.

INVITATIONS TO COMMENT (Issued January 2004)

ITC *Accounting for Social Policies of Governments* deals with accounting for social policies of governments. The ITC proposes a conceptual model for the recognition and measurement of social policy obligations derived from concepts implicit in existing IPSASs, particularly IPSAS 19. This conceptual model is then applied to a variety of social policy obligations, including the provision of health care, education, social welfare benefits and aged pensions. The ITC also proposes disclosure requirements for social policy obligations. ***The comment period closed 30 June 2004.***

ITC *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* deals with the recognition and measurement of revenue from non-exchange transactions including taxes of various kinds, and transfers including grants, appropriations, gifts, bequests and fines. The ITC proposes an “assets and liabilities” model for the recognition of revenue from non-exchange transactions based on the definition of revenue already provided in IPSASs. The ITC demonstrates the application of this model to different classes of revenue. ***The comment period closed 30 June 2004.***