INTERNATIONAL TASK FORCE on HARMONIZATION of PUBLIC SECTOR ACCOUNTING

Minutes of the Steering Group Meeting
OECD Headquarters, Paris
3 October 2003

The first meeting of the Steering Group of the international Task Force on Harmonization of Public Sector Accounting (TFHPSA) took place at OECD Headquarters on 3 October 2003. The meeting was attended by representatives of: Australia, United Kingdom, European Central Bank, Eurostat, IMF, OECD and the International Federation of Accountants-Public Sector Committee (IFAC-PSC). Apologies were received from the International Accounting Standards Board (IASB). A full list of participants is attached.

MANDATE OF TFHPSA

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 Manuel (GFSM2001), 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 TFHPSA 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 burdens.

SUMMARY RECORD

Opening

The meeting was opened by Mr. Enrico GIOVANNINI, Director, OECD Statistics Directorate. He welcomed participants to the meeting, highlighted the importance of the subject being discussed and the need for cooperation between the accounting and statistics communities in this field. He noted the strong interest shown in this subject at the last OECD Accruals Symposium, which is composed of the chief government accounting policy officers in Member countries.

Mr. Ian MACKINTOSH, Chairman, IFAC-PSC, reported on the meeting held on 4-5 June, 2003, at the World Bank Headquarters in Washington. He noted that the formation of the Task Force was in accordance with the conclusions reached at that meeting. Mr. MACKINTOSH also highlighted the pioneering role played by the IFAC-PSC in promoting harmonization in this field and their commitment to carrying forward this work.

Ms. Lucie LALIBERTÉ, Senior Adviser, IMF Statistics Department, noted the IMF’s strong interest in harmonization between accounting and statistical standards for reporting on government finances. As the Chairperson of the Task Force, she tabled two matrices that detailed the work and a Strategy Paper to help steering the work. This has been reflected in the above mandate.

Morning Session: Harmonizing IPSAS/GFSM 2001

Session I on harmonizing IPSAS/GFSM 2001 was chaired by IFAC-PSC (Mr. Ian MACKINTOSH).

A short discussion started about the focus of Working Group 1 (WG1). The UK delegate expressed concern that WG1 mandate should also include harmonisation with ESA, as well as influence on IASB.

The CHAIRMAN invited Ms. Betty GRUBER (IMF) to present the matrix covering the differences between GFSM 2001 and IPSAS ("Matrix 1"). The matrix shows the treatment for each area according to GFSM 2001 and IPSAS, respectively, and suggests how harmonization may be achieved. The matrix is divided into the following sections:

- Section I: Scope/Coverage
- Section II: Accounting Rules
- Section III: Analytical framework
- Section IV: GFSM 2001 Statement of Government Operations vs. IPSAS Statement of Financial Performance
- Section V: GFSM 2001 Statement of Other Economic Flows vs. IPSAS Statement of Financial Performance
- Section VI: GFSM 2001 Balance Sheet vs. IPSAS Statement of Financial Position
- Section VII: GFSM 2001 Statement of Sources and Uses of Cash vs. IPSAS Cash Flow Statement

Section I: Scope/Coverage

Delegates noted that GFSM 2001 and IPSAS had many similarities but were based on different concepts in regards to scope and coverage.

GFSM 2001, in consistency with SNA, is based on sectoral grouping of institutional units, i.e. "general government" and "other public sector". IPSAS are based on reporting entities which comprise all controlled entities. IPSASs do not differentiate the government sector from other public sector activities as all entities controlled by government are fully consolidated. In GFSM 2001, general government includes *non-market* institutional units that are controlled by government, whereas "other public sector" is concerned with *market* government controlled institutional units, presented as "non-financial (public) corporations" or "financial (public) corporations"

The differences in scope/coverage between GFSM 2001 and IPSAS give rise to two major issues that pertain to the methods of consolidation used in IPSAS.

First, the SNA delineation of "government" from "other public sector" is not currently part of IPSAS reporting. The meeting clarified that the IPSAS "segment" reporting would not provide the SNA sectoral breakdown since segment reporting simply provides a disaggregation of the consolidated financial statement. It was concluded that IFAC-PSC would be requested to consider producing "general government" (and other) sectoral guidance or standards to mirror the general government sector used in statistics, and this would need to be designed within the IPSAS family. This does not require amendments in SNA.

The data to provide sectoral information is available in government accounts. The UK delegate reported on the UK experience where the delineation of public accounts is aligned with the statistical requirements. The ECB delegate noted that clearer guidance was needed with respect to the definition of sectors in SNA/GFSM/ESA in order to better delineate "government" from "other public sector" activities. This was especially the case with social security, pension funds and insurance funds. This will be taken up by Working Group II. The IMF noted that statisticians could espouse more closely the IPSAS definition of control for the public vs. private statistical delineation and that the public sector accountants would need to take on board the market and non-market delineations established by statisticians to distinguish the "government" sector from the "other public" sector.

Second, differences with SNA/GFSM 2001 are also due to IPSAS fully consolidating all controlled entities, both resident and nonresident. In SNA/GFSM 2001, nonresident entities are not fully consolidated; instead, they are "consolidated" under the equity investment consolidation method.

Section II: Accounting Rules

Valuation

GFSM 2001 mandates that all assets be valued based on current market prices. IPSAS provide a choice between fair value (i.e. market) and historical cost for valuing certain assets.

It was noted that the USA and Canada focus their accounting on historical cost, but some others (like UK, Australia…) increasingly refer to fair value, using for instance benchmark cost and alternative valuation basis (fair value) for property, plant and equipment. In valuing inventory, IPSAS require the lower of historical cost and net realizable value (held for sale) or current replacement cost (held for distribution at no charge). In statistics, inventory valuation is based on the current market prices. It was noted that IFAC-PSC may consider raising with the IASB the issue of valuing inventory at current value for more consistency with the valuation of other assets and liabilities of governments, and may consider diverging from IAS/IFRS on inventory valuation, which is not likely to be material for governments. The UK delegate noted that they were in the process of trying to apply accounting-based concepts for the valuation of non-financial assets in their statistical work. The UK delegate also noted that the Task Force should consider consulting with the organization responsible for international valuation standards – IVSC – before drawing conclusions in this area

The frequency of valuation appears to be the same in GFSM 2001 and IPSAS.

Time of recording

Some differences were noted between GFSM 2001 /SNA and IPSAS in this area. The first relates to taxes and the second to prior period revisions.

In principle, taxes should be recorded when the obligation to pay arises, which is generally interpreted to occur when the underlying economic activity takes place. This is, however, a concept that often cannot be applied with any degree of accuracy or consistency in measurement. IFAC-PSC reported that there is currently no IPSAS covering this issue. However, a PSC steering committee on non-exchange revenue is working on the issues and is reaching similar conclusions. The IMF also noted that some believe that the obligation to pay relate, for some taxes, more to the time of assessment (in particular for taxes on income) and that there was reluctance by some to allocate taxes back to the time when the underlying activity occurs.[1] As a result, GFSM 2001 and SNA/ESA state that some taxes could be recorded at the time of assessment. The IMF suggested that there may be a need to clarify the guidance of GFSM 2001/SNA/ESA on this issue.

[1] During the OECD National Accounts Meeting on October 8, 2003, France indicated it did not wish to allocate personal income tax backward (by one year), owing to the fact that household behavior was influenced by the due for payment, in particular for quarterly time series.

IPSAS and GFSM 2001 can also differ significantly in how prior period revisions are treated. In statistics, it is an accepted working method that statistics will be revised in subsequent periods (within limits, for example 3 years) as new information becomes available. In accounting, fundamental errors are adjusted to opening balances (i.e., reflected as an impact on prior periods). However, an adjustment for other errors is shown in the period when the 'error' is discovered whereas in statistics it is corrected in the time period in which the transaction belongs.

It is anticipated that the IASB improvements project will amend IAS 8 to state that 'all material errors should be accounted for retrospectively with restatement of comparative periods.' An opportunity exists for IFAC-PSC to adopt the improved IAS 8. It was, however, noted that there was a fundamental difference between 'correction of errors' and 'changes in estimates.' This is to be further considered by IFAC-PSC.

Due to time constraints, the discussion of the remaining issues of Matrix 1 did not proceed further.

It was agreed that Australia – which has done extensive work in this field - would work with the IMF to produce a more condensed catalogue of issues for the next meeting of the Task Force.

Afternoon session: Harmonizing GFSM 2001 / ESA95 / SNA93

Session II on harmonizing GFSM 2001/ESA/SNA was chaired by the OECD (Mr. Jean-Pierre DUPUIS).

Philippe de Rougemont (IMF) presented the structure of the Matrix 2 "GFS list of issues for the SNA review" (IMF working document), which regrouped numerous entries (98) within 15 topics, with cross-reference, where appropriate, to Matrix 1 and to the annex of the OECD initial document. Examples of topics include pension schemes, interest recording, relations between government and public corporations (privatizations, capital injections etc.), sectorisation of government, sale of rights, licenses and concessions, tax revenue, income and revaluation delineation etc.

Discussion started on the relations between WG 2 and WG 1 and their specific objectives ("sources" for WG1, "statistics" for WG2, L. Laliberté), the necessity of coherence between these groups (I. Carruthers, W. Bier…) and on the opportunity to define only one list of issues, common to both groups. It was recognized that work of the two groups had to be closely linked.

François Lequiller, who was part of another meeting (ISWGNA), informed the group that the Task force was recognized by the ISWGNA as one of the groups involved in drafting proposals for the SNA revision, in the field of government and public sector. In the general process of SNA revision, an Advisory expert group (AEG) has to meet once a year from 2004 to 2007, making the final decisions on which revisions are to be implemented (next meeting: February 2004 in Washington, DC). Some members of the Steering Group (B. Kaufmann, R. Keys…) expressed concern that the task force would be too much oriented towards SNA review and might duplicate the work of other task forces (Canberra II). Lucie Laliberté remarked that the sharing of work between two WGs was designed to avoid mono-focus. Philippe de Rougemont noted the TFHPSA was—to his knowledge—unique for its equal representation of accountants and statisticians, a characteristic that was valuable and should prove fruitful for the work for the task force. François Lequiller clarified that the ISWGNA had indicated that the TFHPSA was expected to provide inputs to the other ISWGNA sponsored task forces on issues with large GFS interest (such as on military expenditure, or on pensions).

The IMF noted the list of issues that was already being dealt with by other task forces, and would therefore be off-limit for the GFS wish list of priority items; these issues include: Military equipment (capitalizing purchases and expensing consumption of fixed capital); BOOT schemes, Public Private Partnership, the treatment of leasing and of transferable contracts generally (risk of under reporting of government's expenditure, borrowing and debt); Mobile phone licenses and more generally concessions (risk of front loading of government future revenue, including of taxes, which would be better treated as borrowing); Treatment of mineral exploration expenditure and subsoil assets (front loading of rent revenue in the form of sale of exploitation licenses); Pensions: employer insurance (liability recognition of government obligations) as well as social security/assistance; and Bad loans (recording of liabilities of government in distress).

The IMF indicated its list of six priority items (with reference to Matrix 2 items), based on the numerous questions countries or other IMF departments regularly ask: Property income on indexed instruments (treatment of changes in principal for indexed securities, its asymmetry with the recording of foreign exchange indexed bonds, risk of volatile or negative interest recording, inflation accounting); Relationship between public corporations and governments (treatment of lump sums to governments/superdividends, of capital injections, accruing of profits and losses of public corporations and quasi-corporations in the books of governments); Privatization and Resolution agencies/ securitization (sectorization of *ad hoc* structures specialized in managing portfolios of assets or debts, of privatization and resolution agencies, and of special purpose vehicles—SPV); Contingent assets, provisions and constructive obligations. (Government guarantees likely to be called at time of grant, recognition of constructive obligations and provisions); Government debt (notion of volume of the instrument, recording of capital transfers for debt assumption, debt cancellation, debt rescheduling, debt swaps, importance of data by initial or residual maturity); Mutual funds and defined contribution pension schemes (placement of government liquidities, treatment of defined contribution schemes).

The OECD indicated broad support for such a list, and added the question of recording of taxes (tax credits) to the list. The OECD operates a tax revenue statistics database and Christopher Heady, an OECD staff, briefed the Steering Group on observed disparities in the data of member states.

IFAC provided a list, based on current PSC work program: constructive obligation, tax revenue, valuation of assets, non exchange transactions and derecognition of financial instruments.

Robert Keys mentioned the income/delineation and consolidation.

Jeff Golland mentioned the securitization of promises of current intragovernmental grants as an issue as well as the public sector delineation (notion of control).

Eurostat (G. Revelin) provided some comments regarding information on the Matrix 2 items for which *ESA 1995 Manual on Government Deficit and Debt* entries or on-going Eurostat Task Force existed.

The Chair summarized the various propositions of priority issues and asked for Steering Group members' preferences. Finally, the adopted list of priority issues to be discussed in the coming months (with possible names of responsible contributors) is the following:

- Capital injections, super-dividends, reinvested earnings (part of the relations between government and public enterprises) (P de Rougemont - IMF, J Golland – ECB, G Revelin – Eurostat)
- Privatization and restructuring agencies, including the case of securitization (P de R – IMF, G R – Eurostat)
- Provisions, contingent assets, constructive obligations, including the case of State guarantees (P de R – IMF, J G - ECB)
- Public – private sectors delineation (JP Dupuis – OECD, G R – Eurostat, IMF)

- Tax revenue, tax credits, uncollectible taxes (JP D – OECD). On this last issue, input from the OECD Revenue Statistics and from the PSC Committee on non-exchange revenue is expected.

In addition to these five issues, it was decided the TFHPSA would give opinions on the few issues on which discussion has already started in other forums (like Canberra II group), namely:

- Military equipment (it was agreed that the PSC staff paper on this issue should be forwarded to the relevant task force groups)
- Pension schemes, including employers' schemes
- Valuation of non-financial assets (non-cash generating)
- Licenses and concessions
- BOOT schemes

Next steps

It was agreed that the next meeting of the Steering Group, Task Force and Working Groups would take place at OECD Headquarters in conjunction with the OECD Accruals Symposium. The dates are 9-10-11 February 2004. Proposals were in the following pattern:

- 9 and 10 February : partly a common meeting with the Accruals Symposium, partly autonomous meeting of the two Working Groups
- 11 February: plenary meeting of the TFHPSA

The chairperson of the OECD Accruals Symposium, the chairperson of the TFHPSA and the chairpersons of the two Working Groups will communicate in order to harmonize the agendas for those days.

PARTICIPANTS

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