

The attached Matrix was developed for consideration at the February 6-7, 2004 meeting of Working Group I of the Task Force on Harmonization of Public Sector Accounting (TFHPSA). It has been amended to reflect the decisions at that meeting (February 2004) and is intended to provide input to the work of various Groups that are working on or are encouraged to work on GAAP/*GFSM 2001* (ESA95/EMGDD/SNA) convergence issues including the International Federation of Accountants Public Sector Committee (IFAC PSC), Working Group II of the TFHPSA and the OECD Canberra II Group.

The Matrix identifies a list of current differences between International Public Sector Accounting Standards (IPSASs) and *Government Finance Statistics Manual 2001 (GFSM 2001)* (and European System of Accounts (ESA95)/*ESA95 Manual on Government Deficit and Debt* (EMGDD)/System of National Accounts (*SNA*)) and proposes a possible process by which the differences could be addressed.

The Matrix categorises the differences and identifies the consequences of those differences. The sequence of the categories broadly reflects the decision process adopted in developing financial reports 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), and measurement (categories 5 and 6), and finally presentation (categories 7 and 8). The categories are:

1. The scope of the entity and sector reporting. This category relates to the boundary of the entity that is the focus of each framework and the consequences for consolidations/accounting for controlled entities and disclosures about sectors.
2. Ownership relationships. This category relates to how each framework treats the relationship between a reporting entity and its owners and how ownership interests are measured.
3. Recognition of assets versus expenses. This category relates to the capitalisation policies adopted under each framework.
4. Recognition versus non-recognition by a counterparty/symmetry (recognition of liabilities). This category relates to the emphasis each framework places on the importance of the accounting by a counterparty in determining the accounting by a reporting entity.
5. Measurement of assets and liabilities. This category relates to the measurement bases adopted under each framework.
6. Financial instruments. This category relates to how each framework treats financial instruments and is considered to be appropriate as a category in its own right given the significance of accounting for financial instruments under the respective frameworks.
7. Time series. This category relates to how each framework treats the current reporting period relative to prior reporting periods, and therefore the time periods in which items are recognized/presented (that is, the reporting periods to which items are attributed).
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 framework, identifying the conceptual similarities between the frameworks. 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 and the significance this issue has for convergence. Because of the

size of this category, it has been sub-categorized to distinguish between those items where it is expected that GAAP and *GFSM 2001* will align and those items where it is not expected that GAAP and *GFSM 2001* will align without further work being done.

The convergence processes proposed in the Matrix take into account the fact that IPSASs issued by the International Federation of Accountants (IFAC) Public Sector Committee (PSC) 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 *GFSM 2001* treatment, then convergence is achieved.<sup>1</sup> However, in certain circumstances, consistent with a view that accounting standards generally should not provide options and to strengthen convergence, it is proposed that some IPSASs are amended to remove non-*GFSM 2001* options.

Consistent with the evolving and ongoing nature of the Project, two further categories have been included:

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

Category 9 can be expanded as needed, and will facilitate the identification of a process for ongoing longer term convergence of *GFSM 2001* and IPSASs. Category 10 will ultimately be able to be deleted. However, at this stage it is useful to keep it as it provides an “historical trail” to the evolving Matrix. As the Working Group works through the issues and convergence issues are resolved they will be classified to category 10 as an historical record. This process has already commenced, and the original issue numbers have generally been retained.

Because it is difficult to categorise certain issues definitively, the Matrix provides a limited number of cross-references to other related categories/issues, acknowledges links to topics being considered by Working Group II of the TFHPSA (which is comparing *GFSM 2001* and *SNA*) and related papers, and the OECD Canberra II Group.<sup>2</sup> For background information, reference is also made to relevant issues papers developed for the Australian project on GAAP/*GFSM 2001* Convergence.<sup>3</sup>

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<sup>1</sup> For example, IPSAS 16 “Property, Plant and Equipment” requires property, plant and equipment to be measured at cost or fair value. If an entity adopts cost, that would not align with the GFS requirement to measure such assets at market value. However, adoption of the fair value option in IPSAS 16 would broadly align with GFS (to the extent that fair value equals market value).

<sup>2</sup> Working Group II and the OECD Canberra II Group are referred to in the last dot point on the next page of this paper – see also the paragraph following that dot point.

<sup>3</sup> The issues papers were prepared by the Australian Heads of Treasuries (HOTs) Accounting and Reporting Advisory Committee (HOTARAC) and submitted as input to the Australian project on GAAP/GFS Convergence being progressed by the Australian Accounting Standards Board. 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, have been 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](http://www.aasb.com.au). AASB staff have commenced collating comments on the Consultation Papers.

## COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)

The identification of a “convergence process” for each difference noted in the Matrix has been proposed (in the last column). This is predicated on the expectation that neither framework could adopt the other framework in its entirety and still achieve its objectives (accountability and decision making by 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 relevant to note that full convergence could be achieved by IMF agreeing that *GFSM 2001* should be amended to align with IPSASs, or by PSC agreeing that IPSASs should be amended to allow general purpose financial statements to be prepared for the General Government Sector (as defined by *GFSM 2001*) and for them to be exempted from complying with current IPSASs (including IPSAS 6 “Consolidated Financial Statements and Accounting for Controlled Entities”), and instead to require compliance with *GFSM 2001*. An approach of continuing to adopt IPSASs for general purpose financial reports of governments with disclosures of related information prepared on a *GFSM 2001* basis could also be contemplated as a mechanism to enhance convergence.

The proposed tentative “convergence process” for each issue within each broad category could generally be described as:

- Clarification by the International Monetary Fund (IMF) of *GFSM 2001*;
- Clarification by PSC of IPSASs;
- IMF to amend *GFSM 2001*;
- PSC to amend IPSASs;
- The Advisory Experts Group (AEG)/Inter-Secretariat Working Group on National Accounts (ISWGNA) to amend *SNA*;
- IASB to amend IASs/IFRSs;
- Refer the issue to another Group or Groups (OECD Canberra II Group, Working Group II of the TFHPSA, various Electronic Discussion Groups [EDGs]);
- Retain the difference, possibly to be disclosed as a reconciling item; or
- No further action required.

The progress that will be made on the issues that are proposed to be referred to another Group or Groups will depend on the work programs and the relative priorities of those Groups.<sup>4</sup> A summary of the work being undertaken by these other Groups is provided in Section A of Annex I (Sections B and C of Annex I provide some detail of the topics being considered by certain Groups).<sup>5</sup> It is anticipated that the deliberations of those Groups will help resolve some current differences. Until then, these differences will remain, possibly to be disclosed as a reconciling item.<sup>6</sup> Fundamental differences between IPSASs and *GFSM 2001* will mean that some reconciling differences will remain. The PSC is encouraged to consider the work of the International Accounting Standards Board (IASB), Organisation of Economic Cooperation and Development (OECD) Canberra II Group, Working Group II of the TFHPSA and the EDGs and to participate in that work as far as appropriate and possible (and

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<sup>4</sup> A summary of the convergence work that is being encouraged to be undertaken by various Groups, whether individually or in combination, is provided in Annex II to the Matrix. The Table in Annex II focuses on each Group rather than on each convergence issue. It is a working draft that has extracted information from the Matrix.

<sup>5</sup> The list of topics is a draft list as at late 2003. The ISWGNA is to update the list to reflect the outcomes of the February 2004 AEG meeting. Section A of Annex I also provides an overview of the process being adopted by ISWGNA in reviewing the SNA.

<sup>6</sup> It would be arguably premature at this stage of the harmonization process to develop a reconciliation statement.

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vice versa). Similarly, the IMF and Eurostat are encouraged to participate in PSC work as observers on the PSC (as they currently are) and in PSC Steering Committees on specific projects as is appropriate (again as currently occurs).

The focus of the Matrix is on the differences that currently exist between IPSASs<sup>7</sup> and *GFSM 2001*. The Matrix also includes a column on *ESA95/EMGDD/SNA*, noting the issues where *ESA95/EMGDD/SNA* differ from GFS and where additional guidance is available. The column facilitates consideration of the implications of such differences.

As the project progresses, it would be desirable to identify a strategy for not only reducing/removing the current differences but to also ensure that further differences do not emerge in the future. One strategy for achieving this might be to consider the existing definitions for the elements of financial statements (assets, liabilities, revenues and expenses) and other key definitions (such as transactions and other economic flows) with a view to aligning those definitions in the respective frameworks, even if the differences in the wording of the definitions do not currently cause a difference between the two frameworks. Category 9 “Terminology and definitions” of the Matrix will help facilitate this.

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<sup>7</sup> Where IPSASs are referred to in the Matrix, the issue date of the IPSAS is identified. References are also made to IASB standards, and the versions of those standards are also identified. Given the ongoing amendments to accounting standards (and IASB standards in particular) it will be necessary to review the Matrix on a regular basis. For example, the Matrix may need to be amended to reflect issues from the recently reissued IAS 32 and IAS 39.

**List of Acronyms**

<b>AASB</b>	Australian Accounting Standards Board
<b>AEG</b>	Advisory Experts Group
<b>COFOG</b>	Classification of the Functions of Government
<b>EDG</b>	Electronic Discussion Group
<b>EMGDD</b>	European Manual on Government Deficit and Debt
<b>ESA</b>	European System of Accounts
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>HOTARAC</b>	Australian Heads of Treasuries Accounting and Reporting Advisory Committee
<b>HOTs</b>	Australian Heads of Treasuries
<b>IASs</b>	International Accounting Standards (issued by the IASB)
<b>IASB</b>	International Accounting Standards Board
<b>IFAC PSC</b>	International Federation of Accountants Public Sector Committee
<b>IFRSs</b>	International Financial Reporting Standards (issued by the IASB)
<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>IMF</b>	International Monetary Fund
<b>IPSASs</b>	International Public Sector Accounting Standards (issued by IFAC PSC)
<b>ISWGNA</b>	Inter Secretariat Working Group on National Accounts
<b>IVSC</b>	International Valuation Standards Committee
<b>OECD</b>	Organisation of Economic Cooperation and Development
<b>ONS</b>	Office of National Statistics, United Kingdom
<b>PFC</b>	Public Financial Corporations
<b>PNFC</b>	Public NonFinancial Corporations
<b>SNA</b>	System of National Accounts
<b>TFHPSA</b>	International Task Force on Harmonization of Public Sector Accounting
<b>UIG</b>	Australian Urgent Issues Group

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
1: THE SCOPE OF THE ENTITY AND SECTOR REPORTING	1.1	<p>(a) Reporting entity</p> <p>(b) Sector reporting (particularly GGS reporting)</p> <p>(c) Accounting for controlled entities</p>	<p>(a) Reporting entity is an individual entity or a group of entities called an economic entity, e.g., whole of government. For financial reporting purposes, an economic entity is a group of entities comprising the controlling entity and any controlled entities. (IPSAS 1 issued May 2000) Therefore, the scope of a reporting entity is determined by the notion of control.</p> <p><b>Whole of government</b> reporting is the reporting for the economic entity "whole of government" (for example, a central government, a state government, a territory government or a local government) prepared on a full consolidation basis. A whole of government report prepared for, for example, 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><b>Government Business Enterprises</b> (see Issue 9.1(d)) are subject to IASB standards rather than IPSASs.</p> <p>A <b>segment</b> is a distinguishable activity or group of activities of an entity (see Issue 8.1(c) re aligning this with GFSM 2001 functional classifications) for which it is appropriate to separately report financial information in a note to the general purpose financial statements.</p> <p>(b) IPSASs do not currently explicitly address <b>sector</b> reporting.</p> <p>(c) Consolidation: 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 assets/equity, revenue and expenses. Balances and transactions between entities within the economic entity and</p>	<p>(a) A statistical unit is the <b>institutional unit</b>, 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. (GFSM para. 2.11) 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>(b) The total economy of a country can be divided up into <b>sectors</b>. A sector is a group of institutional units that are <b>resident</b> in the economy. The 5 sectors are: general government, nonfinancial corporations, financial corporations, nonprofit institutions serving households, and households. The public sector (for the whole economy or a particular government's jurisdiction) consists of the general government sector, public nonfinancial corporations (PNFC) and financial corporations (PFC) subsectors. The general government sector and nonfinancial public corporations can be consolidated to get the nonfinancial public sector. (GFSM Chapter 2)</p> <p>(c) Consolidation involves the elimination of all transactions and debtor-creditor relationships that occur among the units being consolidated. (GFSM paras. 3.91-3.94)</p>	<p>Same as GFSM 2001</p>	<p>The IPSAS notion of Government Business Enterprises broadly corresponds to the GFSM 2001 notion of public corporations.</p> <p><b>Convergence process:</b> In resolving these issues, PSC could be initially asked to give consideration to the following questions:</p> <p>Issue (a) and its consequence for Issue (c) gives rise to the following:</p> <ul style="list-style-type: none"> <li>Is a GGS (as defined by GFSM 2001) within a particular jurisdiction an entity for which a general purpose financial statement could be prepared?</li> <li>If a general purpose financial statement could be prepared for a GGS, should it be exempted from fully consolidating all controlled (resident or non-resident) entities?</li> <li>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)?</li> </ul> <p>In addition to the "partial consolidation" question, a subsequent question to be addressed will be whether the GGS general purpose financial statements should be prepared on the basis of IPSAS principles or GFSM 2001 principles in relation to the other issues identified in this Matrix and, if in accordance with GFSM 2001, whether the financial statements can be issued as "in accordance with IPSASs". The answer to this question will depend on the outcome of the other issues identified in broad categories 2 to 10.</p> <ul style="list-style-type: none"> <li>How should other sectors/subsectors of the public sector be treated?</li> </ul> <p>Issue (b) and its consequence for Issue (c) gives rise to the following, irrespective of whether a GGS (as defined by GFSM 2001) is permitted to prepare a general purpose financial statement on a "partial consolidation" basis:</p> <ul style="list-style-type: none"> <li>If a general purpose financial statement is prepared for the whole of government (as defined by IPSASs), should disclosures relating to financial information about the GGS (as defined by GFSM 2001) applicable to that government be required/encouraged/allowed to be made in that statement? If so: <ul style="list-style-type: none"> <li>what prominence should it be given in whole of government fully consolidated general purpose financial statements?</li> <li>should a GGS asset "investment in controlled entities in other sectors" be required to be disclosed?</li> <li>if "investment in controlled entities in other sectors" is disclosed, how should it be measured (initially recognized amount, fair value, proportion of recognized</li> </ul> </li> </ul>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
			<p>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 issued May 2000, paras 39 and 41)</p>			<p>net assets of the investee, equity accounting, some other basis)?</p> <p>As with Issue (a) above, in addition to the "partial consolidation" question, a subsequent question to be addressed will be whether the GGS information should be prepared on the basis of IPSAS principles or GFS principles. The answer to this question will also depend on the outcome of the other issues identified in this Matrix.</p> <ul style="list-style-type: none"> <li>How should other sectors/subsectors of the public sector be treated?</li> <li>Where the GGS comprises different tiers of government, such as central, state, and local governments, should a disaggregation be provided?</li> </ul> <p>In relation to the more general question of the scope of the entity, PSC and ISWGNA could 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 should link to any work undertaken by the IASB on control.</p> <p>ESA95 and GFSM 2001 definitions of the general government and public corporations are taken from the SNA93 so they are the same. However, ESA95 have developed some rules, for example, for corporations. ESA95 and GFSM 2001 guidance on how the General Government boundary is defined should be aligned. It would also be useful to agree on principles for allocation between Central Government, State Government, and Local Government/Public Corporations.</p> <p><b>Summary:</b> Information about a GGS provides useful information for users of general purpose financial statements.</p> <p>To facilitate convergence, PSC could consider allowing voluntary disclosure of financial information about the GGS (as defined by SNA/GFSM 2001) for a particular jurisdiction to be disclosed in whole of government general purpose financial statements with "investment in controlled entities in other sectors" disclosed and measured at the government's proportional interest in the net assets of the other sectors (to the extent that the net assets of the other sectors is accepted by GFSM 2001 as the market value of those other sectors – see Issue 2.2). This would enable GGS stand-alone financial information to be extracted from the fully-consolidated general purpose financial statements, thereby facilitating substantial progress towards convergence.</p> <p>Accordingly, IPSASs could encourage disclosure of GGS information (and specify the disclosures where the encouragement is adopted) and further encourage disclosures about other sectors (financial and non-financial separately) and the subsectors of general government in a manner similar to the GGS information.</p> <p><b>Link to Working Group II of the TFHPSA (WGII):</b></p>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
						<p>In relation to consolidation, consolidation is not used in the SNA. 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 public sector and private sectors (WGII Topic 4). In considering these issues, WGII should have regard to the GAAP notion of control.</p> <p>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) to accounting for such investments (WGII Topic 1), which broadly equates to the equity method.</p> <p><i>(HOT's technical paper "Consolidations" and the HOT's conceptual paper "Budget (ex-ante) reporting framework").</i></p>



**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
<b>2: OWNERSHIP RELATIONSHIPS</b>	2.1	Outside equity interest	Minority interests are "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) They are recorded as net assets/equity	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" ( GFSM para. 10.35) Therefore, GFSM 2001 adopts what is commonly referred to as an entity view.	Same as GFSM 2001	<b>Convergence process:</b> Reconciliation (because GFSM 2001 recognizes it as a liability, whereas IPSASs recognize it as equity).  <b>Link to WGIII:</b> WGIII (Topic 1) Government transactions with public corporations. <i>(HOT's technical overview paper "Issue 5.4" re minority interests.)</i>
	2.2	Calculation of net worth/measurement of equity and contributions from owners for commercial government operations	Net worth is not defined in the IPSASs. Net assets/equity are defined as "the residual interest in the assets of the entity after deducting all its liabilities" and is not affected by the market value of the entity's equities.  Contributions from owners include certain transfers between two entities within an economic entity.  Contributions from owners, in their capacity as owners, to controlled entities are recognized as a direct adjustment to net assets/equity only where they explicitly give rise to residual interests in the entity in the form of rights to net assets/equity.  (IPSAS 1 definitions of expense and distributions to owners and paras. 114-118).  PSC's Non-Exchange Revenue Steering Committee has issued (January 2004) an ITC on Revenue from Non-Exchange Transactions (Including Taxes, Transfers and Grants), and notes the significance of distinguishing revenue from contributions from owners. It concludes that owner entities should formally designate whether contributions to controlled entities are contributions from owners (para 2.6, 4 December 2003 draft)	Net worth equals total assets minus total liabilities. For public corporations total liabilities includes shares and other equity. (GFSM para. 4.52)  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 new enterprise (treated as purchase of equity) (GFSM paras. 9.35-9.37)	ESA95 Debt and Deficit Manual (EMGDD) provides rulings on the treatment of capital injections.	<b>Convergence process:</b> Reconciliation (because there is a potential difference between IPSASs net assets and GFS net worth in the PNFC and PFC sectors – GFSM 2001 effectively 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 – and therefore there may be a negative net worth] whereas GAAP treats it as equity and measures it at its originally recognized amount [that is, it is not subject to remeasurement]).  Also, it would be appropriate to align GFSM 2001 and IPSASs guidance on when an item is a contribution from owners rather than revenue (see discussion in PSC ITC on non-exchange revenue). See also Issue 6.1(a), debt assumption.  <b>Link to other issues:</b> Issue 2.1, because net worth, in aggregate, effectively includes any outside equity interests. Issue 9.1(f) re net worth terminology.  <i>(HOT's technical paper "Issue 5.2" re reduced net worth for commercial government operations)</i>
	2.3	(a) Distributions payable to owners as holders of equity instruments	(a) & (b) Dividends to holders of financial instruments classified as equity instruments are treated as distributions to owners, that is, as an allocation of profits/results, not as an	(a) & (b) When payments are received from public corporations, it can be difficult to decide whether they are dividends or withdrawals of equity. Distributions to owners may be by way	(a) & (b) EMGDD provides rulings on the treatment of dividends.	The GAAP and GFSM 2001 treatments of dividends are consistent with the GAAP treatment of outside equity interests and the GFSM 2001 treatment of outside equity interests and calculation of net worth respectively.

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
	(b)	Distributions receivable from controlled entities	expense (IPSAS 15, issued December 2001, para 36). The treatment of dividends does not change depending on their funding source. That is, there is consistent treatment regardless of the sector status of the entity paying the dividend or the source of profits, from which it is paid. (IPSAS 1 paras. 113, 115, and 118)	of (1) dividends or withdrawals of income from quasi-corporations or (2) withdrawals of equity. Dividends are payments a corporation makes out of its current income, which is derived from ongoing productive activities. Distributions of proceeds from privatization receipts and other sales of assets (GFSM para. 9.38) and large and exceptional one-off payments based on accumulated reserves or holding gains are withdrawals of equity rather than dividends. (GFSM para. 5.87)  Dividends are recorded either on the date they are declared payable or, if no prior declaration occurs, on the date payment is made. (GFSM para. 5.85) Withdrawals from income of quasi-corporations are conceptually equivalent to dividends and are treated the same way. All such withdrawals are recorded on the date payment actually occurs.		<p><b>(a) Convergence process:</b> This issue is to be addressed by WGII, which may conclude that all distributions to owners should be treated as return of equity (however, this will have implications in terms of symmetry with the treatment of dividends by recipients). Depending on the outcome of WGII, there may be a need for reconciliation (if GFSM 2001 continues to expense the distributions; because it is likely that IPSASs will continue to treat them as a direct reduction of net assets/equity).</p> <p><b>(b) Convergence process:</b> Reconciliation may be required. PSC could develop guidance on distinguishing dividends from return of contributed capital and in so doing consider the GFSM 2001 principles for distinguishing between dividends and withdrawal of equity. (However, return of contributed capital is a narrower notion than withdrawal of equity).</p> <p>In relation to performance reporting (see broad category 8), both PSC and GFSM 2001 would regard dividends from controlled entities as a transaction, and therefore no difference arises, subject to the following. From a GFSM 2001 perspective, if total current income would be recorded when earned, not just when it is distributed (the "reinvested earnings" approach), payments to owners would always be a withdrawal of equity. Accordingly, the owner would record its investment in a controlled entity in the same way as is done for foreign direct investment in the balance of payments and national accounts. Property income would include the investor's portion of the earnings of the controlled entity. The offsetting entry would be an increase in investment in the controlled entity. When a distribution is made, the entries would be a reduction in this investment and an increase in cash.</p> <p><b>Link to WGII</b> WGII is considering issues relating to accounting for the earnings of controlled entities (WGII Topic 1).</p> <p><b>Link to other issues:</b> Issue 5.8 investment in associates.</p> <p><i>(HOT's technical papers "Issue 5.1" re distributions payable to owners, and "Issue 7.2" re distributions receivable from controlled entities.)</i></p>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
3: RECOGNITION OF ASSET VS EXPENSE		<p>PSC defines 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”.</p> <p>PSC’s asset recognition criteria are:</p> <ul style="list-style-type: none"> <li>• It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and</li> <li>• The cost or fair value of the asset to the entity can be measured reliably.</li> </ul>	<p>GFSM 2001 para 7.4 defines assets as 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. Para 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 GFSM 2001, but ESA95 does not use the term “expense” (although it adopts the same ideas)</p>		
3.1	<p>Costs associated with:</p> <p>(a) Research and development</p> <p>(b) Intangible assets</p> <p>(i) computer software</p> <p>(ii) other intangible fixed assets</p>	<p>(a) and (b) No IPSAS</p> <p>IASB: The relevant standard is IAS 38 <i>Intangible Assets</i> (issued July 1998) which requires that all costs on research be recognized as an expense when it is incurred, and contains detailed rules for the treatment of costs in the development stage. Development costs are capitalised under certain circumstances.</p> <p>Subsequent costs on an intangible asset after its purchase or completion should be recognized as an expense when it is incurred unless: (a) it is probable that this costs will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) the costs can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure</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 (GFSM 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 GFSM 2001</p>	<p>OECD Canberra II Group is considering topics relevant to Issue 3.1 (see, for example, Topics 10, 25, 26 and 28 in Annex I). This might conclude that instead of expensing all R&amp;D, more (if not all) R&amp;D should be capitalised.</p> <p><b>Convergence process:</b></p> <p>(a) &amp; (b) PSC action: consider appropriateness of IAS 38 for the public sector and encourage OECD Canberra II Group to work with the IASB (and encourage SNA/PSC to adopt the same recognition criteria). Reconciliation may be necessary, to the extent that GFSM 2001 expenses and IPSASs capitalise, or GFSM 2001 capitalises and IPSASs expense. (A difference between GFSM 2001 and IPSASs may remain due to the asset recognition criteria in IPSASs – although see Issue 9.1(j)).</p> <p>(HOT’s technical paper “Issue 4.5”)</p>	

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
			<p>should be added to the cost of the intangible asset. (IAS 38 para. 60)</p>	<p>(ii) The value of computer software should be based on the amount paid for the software if acquired from another unit or on the costs of production when produced on own account.</p> <p>(iii) Entertainment, etc should be valued on the current market price when they are actually traded. Other intangible assets should be valued at their current written-down cost of production or the present value of future receipts.</p>		
	3.1.A	Mineral exploration	<p>There is no IPSAS</p> <p>There is no IASB standard. The IASB has issued ED 6 "Exploration for and Evaluation of Mineral Resources" (January 2004 for comment by 16 April 2004). Broadly, ED 6 proposes that "an entity continue the accounting policies applied in its most recent annual financial statements for exploration and evaluation expenditures, and proposes impairment testing based on existing cash generating units, pending more complete consideration of the accounting issues involved." (para IN5)</p>	<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.</p>		<p><b>Convergence process</b></p> <p>OECD Canberra II Group (Topic 12 – see Annex I) and PSC should be asked to work jointly, and to monitor IASB developments.</p>
	3.2	Defense weapons platforms inventory	<p>Specialist military equipment (which includes defense weapons and their platforms) is included in assets on the Statement of Financial Position.</p> <p>Depreciation expense on assets is recorded in the Statement of Financial Performance. (See for example IPSAS 17, issued December 2001, para 3 and 20)</p>	<p>Defense weapons and, by extension, their platforms are treated as single-use goods and are expensed at the time of purchase (GFSM para. 7.36).</p>	Same as GFSM 2001	<p><b>Convergence process:</b></p> <p>It is likely that <i>SNA</i> will be amended to align with IPSAS treatment and <i>GFSM 2001</i> will then follow. When this occurs, this issue will be moved to broad category 10.</p> <p><i>SNA</i> should consider progressing further the paper developed in relation to OECD Canberra II Group Topic 6 (see Annex I), particularly in relation to the distinction between inventory and P,P&amp;E. The paper is "Canberra II Group's recommendations to treat military weapons systems as assets" written by Brent Moulton. The SNA Advisory Experts Group (AEG) voted in February 2004 to record military weapons systems as assets but needs further consultation.</p> <p><i>(HOT's technical paper: "Issue 4.1")</i></p>
	3.3	Borrowing costs	<p>The benchmark treatment in IPSAS 5 <i>Borrowing Costs</i>, issued May 2000, requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization</p>	<p>"Borrowing costs" is not a classification item in <i>GFSM 2001</i>. These costs are broken down into their constituent components and each component treated separately.</p>	Same as GFSM 2001	<p><b>Convergence process:</b></p> <p>No action required to achieve convergence.</p> <p>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,</p>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
			<p>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.</p> <p>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."</p>	<p>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.</p> <p>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 an expense.</p>		<p>PSC could be asked to consider removing the option to capitalize.</p> <p>The work of the IASB should be monitored, to the extent that the treatment of borrowing costs will be considered as part of its broader measurement project.</p> <p><b>Link to other issues:</b>                      Issue 8.14 swap interest.                      Issue 5.4(f) re transaction costs related to borrowings.                      (HOT's technical paper "Issue 1.2")</p>
	3.6	<p>Public private partnerships including BOOT schemes</p>	<p>IPSASs do not prescribe treatment for these schemes.</p> <p>IASB: IFRIC project on Service Concessions (which is developing an Interpretation for application from 1 January 2005 and is considering the extent to which the leasing model in IAS 17 is relevant and can be applied).</p>	<p>GFSM 2001 does not prescribe treatment for these schemes. First principles need to be applied to the contract arrangements.</p>	<p>EMGDD provides rulings on the treatment of public private partnerships. These were revised by a Eurostat Task Force in February 2004. UK has public private initiatives and the statisticians follow these guidelines.</p>	<p>OECD Canberra II Group will consider this issue (see Topic 24 in Annex I) and WGII Topic 4.</p> <p>IMF Staff Paper: Traditional approach is for assets, built, owned, and operated by a private corporation and later transferred to government, to be recorded as assets on the books of the corporation up until the time of the transfer. At that time, the government will record a receipt of a transfer as revenue and an increase in non-financial assets. Paper proposes government leases the infrastructure from the corporation by way of a financial lease and then leases the infrastructure back to the corporation under an operating lease.</p> <p><b>Convergence process:</b>                      There is currently debate, in both the statistical and accounting professions, on how to treat public private partnerships. The IFRIC Service Concessions project and the IASB leasing project should be monitored. When the PSC comes to address the issues, OECD Canberra II Group, WGII and PSC should be asked to work jointly, and to monitor IASB developments.</p> <p><b>Link to WGII WGII (Topic 4).</b></p>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
4: RECOGNITION VS NON-RECOGNITION BY A COUNTERPARTY /SYMMETRY (RECOGNITION OF LIABILITIES)	4.1	Constructive obligations	<p>Provisions are defined as liabilities of uncertain amount and timing. "A provision is recognized when:</p> <p>(a) an entity has a present obligation (legal or constructive) as a result of a past event;</p> <p>(b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and</p> <p>(c) a reliable estimate can be made of the amount of the obligation." (IPSAS 19, issued October 2002, para. 22)</p> <p>"A constructive obligation is an obligation that derives from an entity's actions where:</p> <p>(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</p> <p>(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities." (IPSAS 19 para. 18)</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". Market value/ fair value may, in fact, be the most appropriate basis for determining this best estimate.</p> <p>IPSAS's Social Policy Obligations Steering Committee has issued (January 2004) an ITC on <i>Accounting for Social Policies of Governments</i>.</p>	<p>Provisions are not recognized, and consequently not defined, in the GFS system. Financial assets and liabilities are recognized on balance sheet at market value. Loans and deposits are recorded at nominal value. The symmetry in valuation between assets and liabilities, in conjunction with continuing fixed legal liabilities by debtors, leaves no room for impairment related reductions in the value of loans. It is only when the actual event takes place that confirms the need for recognition of a new asset or liability or an impairment of an existing asset or liability that a flow is recorded. Contingent assets and liabilities are only recorded as memorandum items in the GFS system.</p> <p>Constructive obligations are not recognized in the GFS system as they are not economic assets in the books of the counterparty. (See <i>Glossary</i> for definitions of assets and liabilities)</p>	<p>Same as GFSM 2001</p>	<p><b>Convergence process:</b> PSC action: progress the ITC on social policy obligations and issue an IPSAS. IMF action: comment on PSC ITC. Although there may be some areas where there is no difference between GAAP and GFSM 2001, in other circumstances reconciliation will be necessary (because GFSM 2001 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><b>Link to WGII:</b> WGII (Topic 5) Contingent assets/guarantees/provisions/constructive obligations. (HOT's technical issues overview paper "Issue 4.6")</p>
	4.1A	Decommissioning/restoration costs	<p>Under IPSAS 19 (see example 3 of Appendix C), in certain circumstances restoration costs give rise to the recognition of a liability and are included as part of the cost of an asset. See also paragraph 26(e) of IPSAS 17.</p>	<p>Treated as an offset to the asset (and possibly, if the amount of the offset exceeds the gross asset, a negative asset).</p>		<p><b>Convergence process:</b> Reconciliation, particularly in relation to: (a) IPSAS separately recognizing a liability that GFSM 2001 treats as an offset to the related asset (potentially giving rise to a negative asset. [OECD Canberra II Group could be asked to consider the notion of a "negative asset".]) (b) Depreciation of the asset, because it may be higher under IPSAS. In principle, in GFS the asset value, before deduction of</p>

## COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
	4.2	Tax effect accounting	No IPSAS IASB: IAS 12 (revised October 2000) which requires the recognition, with limited exceptions, of the tax consequences of recovering or settling the carrying amounts of assets and liabilities and of the ability to carryforward unused tax losses.	GFSM 2001 would not recognize a deferred tax asset or liability.	Same as GFSM 2001	decommissioning/restoration costs, should be the basis for depreciation. If that is done, then there is no difference. (c) Treatment of any remeasurement of the IPSAS liability.  <b>Convergence process:</b> PSC action: consider IAS 12. Recommend the issue be considered by WGII (Topic 3) (including whether deferred tax assets relating to carryforward tax losses should be recognized), with any unresolved issues being the subject of reconciliation (to the extent that, if PSC 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 GFSM 2001 would not recognize] and the tax collector [GGS] would not recognize the related deferred tax liability or asset under GAAP [see Issue 7.1(b)] or GFSM 2001).  (HOTARAC unnumbered technical paper – see footnote 3 in the introductory note to this Matrix)
	4.3	Employee stock options (ESOs)	IPSASs do not prescribe treatments for these schemes. IASB: see IASB ED 2	No specific GFSM 2001 guidance is provided in GFSM 2001 but it would align with SNA. These stock options would be expensed but the time of recording is uncertain.	Same as GFSM 2001	<b>Convergence process:</b> This is unlikely to be a significant issue in a public sector context. EDG (Topic 1), AEG (Topic 2) [see Annex I] and PSC should be encouraged to work jointly on the issue, after the issues have been resolved by the AEG and IASB. AEG should be encouraged to consider IFRS 2.  <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.  (HOT's technical issues overview paper "Issue 4.7")

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
5: MEASUREMENT OF ASSETS AND LIABILITIES			<p><b>General principles:</b> mixture of market and fair values and historical cost.</p> <p>Market value is the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction.</p> <p>IPSAS 16 <i>Investment Property</i> (issued December 2001) and IPSAS 17 <i>Property, Plant and Equipment</i> allow measurement at historical cost or fair value. IPSAS 19 <i>Provisions, Contingent Liabilities and Contingent Assets</i> requires provisions to be measured at "the best estimate of the expenditure required to settle the present obligation at the reporting date", possibly at market or fair value.</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 <b>current market prices</b> or values. (GFSM 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. (GFSM 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. (GFSM paras. 7.75 - 7.77)</p>	Same as GFSM 2001	<p><b>Convergence process:</b> In concept, the notions of fair value (and the hierarchy for determining fair value described in IPSASs) and current market values are similar – see Issue 9.1(b).</p> <p>As a general comment, regard should be had to the standards 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. <i>SNA</i> should 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 the PSC work on impairment.</p> <p>Ask PSC to consider limiting the circumstances under which an option of historical cost should be available.</p> <p>OECD Camberra II Group is considering measurement of non-financial assets. It is encouraged to consider IPSASs and the work of the IVSC.</p>
	5.3	Impaired non-financial assets	No IPSAS. ED 23 is on issue for public comment.	In relation to performance reporting, impairment of assets would be treated as an other economic flow – most likely as a volume change (GFSM 2001 para 10.28-10.53)	Same as GFSM 2001, although the Office of National Statistics (ONS) regard impairment as extra capital consumption	<b>Convergence process:</b> A wait outcome of PSC ED 23.
	5.4	Transaction costs: (c) equity instruments (d) future disposal of non-financial assets (e) future disposal of financial assets	<p>(c) No IPSAS. Refer to IAS 39.</p> <p>(d) IAS 41 requires biological assets to be measured at fair value less point of sale costs. IASB ED 4 on Disposal of Non-Current Assets and Presentation of Discontinued Operations proposes that assets held for sale be measured at lower of cost and fair value less cost to sell.</p> <p>(e) No IPSAS. Refer to IAS 39.</p>	<p>(c) Transactions costs are called costs of ownership transfer in the GFSM. 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 (GFSM paras. 7.22, 8.6 and 9.7).</p> <p>(d) Current market value should reflect costs of bringing the nonfinancial assets to market. GFSM 2001 para 7.29 states that current market prices can be used to estimate the gross return from the disposition of naturally occurring assets and</p>	Same as GFSM 2001	<p><b>Convergence process:</b> (c) PSC action: consider how transaction costs arising on the issue of equity instruments should be treated. Depending on the outcome, reconciliation may be necessary.  (d) &amp; (e) PSC action: consider IAS 39, IAS 41 and the IASB standard that will result from IASB ED 4. Depending on the outcome, reconciliation may be necessary, although it is likely to be insignificant.  <b>Link to other issues:</b> Issue 8.1(c)(vi) re treatment of point-of-sale costs in relation to biological assets. Issue 3.3 re borrowing costs.  (HOT's technical issues overview paper "Issue 6.3")</p>



**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
				intangible assets and the costs of bringing them to market. These returns and costs can then be discounted to estimate the present value of the expected benefits. (e) See (c)		
	5.5	Nonperforming loans	There are no explicit IPSAS requirements.  IASB: "A financial instrument is impaired if its carrying amount is greater than its estimated recoverable amount. An enterprise should assess at each balance sheet date whether there is any objective evidence that a financial asset or group of assets may be impaired. If any such evidence exists, the enterprise should estimate the recoverable amount of that asset or group of assets and recognise any impairment loss." (IAS 39, revised March 2000, para. 190)  A loss is recognized in net profit or loss when the instrument is impaired. (IAS 39 para. 108)	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. ( GFSM Appendix 2)	ESA95 is the same as GFSM 2001. The SNA does not allow a unilateral write-down of a partial value of a debt.	<b>Convergence process:</b> IMF is hosting an Electronic Discussion Group [EDG] (Topic 5) on nonperforming loans and it should be encouraged to consider IAS 39. The moderator's report will feed to the AEG/ISWGNA.  (The purpose of the EDG is to determine if additional criteria should be applied to the treatment of nonperforming loans and to make sure that they are consistent with the other major macroeconomic statistical systems (balance of payments, government finance, and money and banking statistics). Such a treatment needs to consider all aspects, such as the definition and valuation of loans in general and nonperforming loans in particular, loans as assets and liabilities, when such loans should be written off, and how interest accruing and interest arrears should be measured).  <b>Link to other issues:</b> Issue 8.1(c)(xii) bad and doubtful debts.
	5.6	Low interest and interest free loans	Consider principles in ITC on <i>Revenue from Non-Exchange Transactions (Including Taxes, Transfers and Grants)</i>	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 (GFSM para. 3.9). In the case of loans, GFSM 2001 does not recognize a transfer for the difference between the market rate of interest and the contractual rate.	Same as GFSM 2001 in principle, but practice probably varies	<b>Convergence process:</b> PSC action: consider ITC on non-exchange revenue and issue an IPSAS.  IMF/SNA/GFSM 2001 action: consider partitioning loans, and comment on the ITC and consider adopting the ultimate IPSAS.  Encourage the AEG and PSC to consider each others work. SNA review is to include low interest and interest free loans. This issue was raised in February 2004 with the AEG by the IMF Balance Of Payments Committee and the TFHPSA. The AEG accepted the topic for review.
	5.7	Inventory	IPSAS 12 Inventories (issued July 2001) – Inventories held for sale are to be measured at the lower of cost or net realizable value (for inventories held for distribution at no/nominal charge: lower of cost and current replacement cost). It does not permit the carrying amount to be increased for a change in market value.	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 are	Same as GFSM 2001	<b>Convergence process:</b> IASB action: PSC could consider requiring all inventory to be measured at current replacement cost where regular revaluations are undertaken for P,P&E. This would not be consistent with the sector neutral principle and therefore it is preferable that the change be effected through the IASB.  (HOT's technical issues overview paper "Issue 6.2" and HOTARAC unnumbered technical paper)

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

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				recorded as transactions. 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 between the time of acquisition and withdrawal are recorded as holding gains or losses. ( GFSM paras. 7.58 - 7.65)		
	5.8	Investments in associates	IPSAS 7 <i>Accounting for Investments in Associates</i> (issued May 2000): "An investment in an associate should be accounted for in consolidated financial statements under the equity method 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." ( para. 18) In other words, the amount of the investor's share of post-acquisition profit or loss of the associate is recognized in the Statement of Financial Performance; any dividends received or receivable are recognized as a reduction in the carrying amount of the investment in the associate, and the amount of the investor's share of the post-acquisition increments or decrements in the associate's reserves is recognized in the investor's reserves.	Information from markets may be used to value similar securities, that are not traded, by analogy (GFSM para. 7.26). Other methods are to use net asset value or directors' valuation. ( GFSM 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 GFSM 2001	<p><b>Convergence process:</b> Reconciliation (particularly in relation to traded shares – GFSM 2001 may accept equity accounting in relation to untraded shares). It is unlikely that GAAP will align with GFSM 2001 for some time, except to the extent that the equity accounting method provides the best estimate of market value.</p> <p>In relation to performance reporting (see broad category 8), even if IPSASs were to adopt a transactions/other economic flow split, it is possible that dividends from associates would be classified as other economic flows (being embedded in the income from associates) rather than as a transaction.</p> <p>There is a possible reconciliation difference for the time of recording of income. IPSASs will record income on an equity basis while under GFSM 2001 income will be recorded when the dividends are declared.</p> <p><b>Link to other issues:</b> Broad category 2 &amp; 8 – in relation to dividends from associates (cf income from associates).</p> <p>(HOT's technical issues paper "Issue 5.3")</p>
	5.9	Measurement of investment in unquoted shares (less than control and significant influence)	No IPSAS  IASB: IAS 39 paras. 69-70: fair value not required after initial measurement; initial measurement at cost plus transaction costs.	Information from markets may be used to value similar securities, that are not traded, by analogy (GFSM para. 7.26). Other methods are to use net asset value or directors' valuation. ( GFSM 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 GFSM 2001	<p><b>Convergence process:</b> PSC action: if PSC considers improved IAS 39, it should be encouraged to do it in the context of GAAP/GFSM 2001 convergence. If the PSC does not consider IAS 39, or until it considers IAS 39, the PSC could consider making it clear that the effect of its hierarchy is that IAS 39 is applicable. If PSC were to effectively adopt improved IAS 39 (whether through the hierarchy or directly) and entities elect to measure unquoted shares at fair value (although see the discussion in this column in Issue 5.4(b) in broad category 10), there is conceptually no difference.</p> <p><b>Link to other issues:</b> Issue 5.8 re investment in associations, broad category 1 re accounting for controlled entities, Issue 8.1(c)(v) re treatment of valuation changes, Issue 9.1(b) re current values, and Issue 5.4 in broad category 10 re measurement of financial instruments.</p>
	5.11	Biological assets (that is, living animals and plants)	No IPSAS on produced or non-produced, cultivated or non-cultivated biological assets.  IASB: IAS 41 (February 2001).	GFSM distinguishes between produced and nonproduced assets. The SNA defines produced assets as nonfinancial assets that have come into existence as outputs from processes of	Same as GFSM 2001	<p><b>Convergence process:</b> PSC action: consider IAS 41. A reconciling difference may continue to exist.</p> <p><b>Link to other issues:</b></p>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
		<p>IAS 41 requires biological assets held for commercial purposes to be measured at fair value less point of sale costs (unless fair value cannot be determined reliably).</p> <p>The carrying amount of biological assets is required to be presented separately on the face of the balance sheet.</p>	<p>production. Nonproduced assets are nonfinancial assets that have come into existence in ways other than through processes of production. Cultivated assets are produced assets and consist of animals and plants that are used repeatedly or continuously for more than one year to produce other goods and services. Only animals and plants cultivated under the direct control, responsibility and management of general government units are cultivated assets or inventories. (GFSM 2001 paras. 7.48-49)</p> <p>Noncultivated biological resources are 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. (GFSM 2001 para 7.75)</p> <p>In relation to cultivated assets, animals are valued on the basis of current market prices for similar animals of a given age. Plants are measured at written-down replacement cost, which is current acquisition cost less any changes which have occurred to the item since it was purchased or produced eg consumption of fixed capital, partial depletion, exhaustion, degradation, exceptional losses and other unanticipated events. (GFSM paras. 7.48 – 7.50) Noncultivated assets are valued at the net present value of expected future returns. (GFSM 2001 para 7.75)</p> <p>Plants and animals grown for single use, such as animals grown for slaughter and trees grown for timber, are treated as inventories rather than as fixed assets. (GFSM 2001 para. 8.35)</p>	<p>production. Nonproduced assets are nonfinancial assets that have come into existence in ways other than through processes of production. Cultivated assets are produced assets and consist of animals and plants that are used repeatedly or continuously for more than one year to produce other goods and services. Only animals and plants cultivated under the direct control, responsibility and management of general government units are cultivated assets or inventories. (GFSM 2001 paras. 7.48-49)</p> <p>Noncultivated biological resources are 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. (GFSM 2001 para 7.75)</p> <p>In relation to cultivated assets, animals are valued on the basis of current market prices for similar animals of a given age. Plants are measured at written-down replacement cost, which is current acquisition cost less any changes which have occurred to the item since it was purchased or produced eg consumption of fixed capital, partial depletion, exhaustion, degradation, exceptional losses and other unanticipated events. (GFSM paras. 7.48 – 7.50) Noncultivated assets are valued at the net present value of expected future returns. (GFSM 2001 para 7.75)</p> <p>Plants and animals grown for single use, such as animals grown for slaughter and trees grown for timber, are treated as inventories rather than as fixed assets. (GFSM 2001 para. 8.35)</p>	<p>production. Nonproduced assets are nonfinancial assets that have come into existence in ways other than through processes of production. Cultivated assets are produced assets and consist of animals and plants that are used repeatedly or continuously for more than one year to produce other goods and services. Only animals and plants cultivated under the direct control, responsibility and management of general government units are cultivated assets or inventories. (GFSM 2001 paras. 7.48-49)</p> <p>Noncultivated biological resources are 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. (GFSM 2001 para 7.75)</p> <p>In relation to cultivated assets, animals are valued on the basis of current market prices for similar animals of a given age. Plants are measured at written-down replacement cost, which is current acquisition cost less any changes which have occurred to the item since it was purchased or produced eg consumption of fixed capital, partial depletion, exhaustion, degradation, exceptional losses and other unanticipated events. (GFSM paras. 7.48 – 7.50) Noncultivated assets are valued at the net present value of expected future returns. (GFSM 2001 para 7.75)</p> <p>Plants and animals grown for single use, such as animals grown for slaughter and trees grown for timber, are treated as inventories rather than as fixed assets. (GFSM 2001 para. 8.35)</p>	<p>Issue 8.1(c)(vi) cultivated assets – change in fair value, Issue 5.4(d) transaction costs, and Issue 5.7 inventory – particularly in relation to “consumable” biological assets.</p> <p>(HOT’s technical issues paper “Issue 2.4”)</p>
5.13	Extractive industries (except subsoil assets)	No IPSAS IASB: under development. IASB ED 6 “Exploration for and Evaluation of Mineral Resources” was issued in January 2004 and is expected to give	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	Same as GFSM 2001	<p><b>Convergence process:</b> Monitor IASB developments. The IASB is developing an IFRS (in the short term, which is likely to be amended in the longer term), and the PSC should consider whether to adopt it. During this process, consideration should be given as to whether the following issues give rise to GAAP/GFSM 2001 differences:</p>	

## COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
			<p>rise to an IFRS late in 2004. Broadly, it proposes grandfathering existing practice (which is diverse throughout the word) for the treatment of exploration and evaluation costs. In its longer term project, the IASB is expected to address accounting for extractive activities more comprehensively and is likely to change current practice in many jurisdictions.</p>	<p>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.</p>		<ul style="list-style-type: none"> <li>• definition/identification of inventory</li> <li>• absorption of exploration and evaluation costs into the cost of inventory</li> <li>• treatment of sale of inventory</li> <li>• depreciation/amortisation</li> <li>• impairment.</li> </ul> <p>OECD Canberra II Group is investigating mineral exploration expenditures and subsoil assets (sale of exploitation licences – see Topic 12 in Annex I). It should be encouraged to consider the work of the IASB, and the IASB should be encouraged to consider its work.</p> <p><b>Link to other issue:</b> Issue 3.1A re mineral exploration and recognition of assets vs expenses. (HOT's technical issues overview paper "Issue 2.5")</p>
	5.14	Subsoil assets	<p>No IPSAS IASB: see Issue 5.13.</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 (GFSM 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 (GFSM 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 (GFSM para. 5.91) and depletion of these assets is treated as an other economic flows (GFSM para. 10.41).</p>	Same as GFSM 2001	<p>(GFSM 2001: The nature of the contractual arrangements needs to be examined in order to determine the classification of any receipts and depletion of subsoil assets. For example, is oil being extracted or have the subsoil assets been sold, i.e., a sale of a non-financial asset. (GFSM 2001 paras 7.73-74)</p> <p><b>Convergence process:</b> Both PSC and OECD Canberra II Group should consider IASB proposals. Reconciliation will be necessary, to the extent that application of IPSASs results in non-recognition of sub-soil assets that are recognized under GFSM 2001.</p> <p>OECD Canberra II Group is investigating mineral exploration expenditures and subsoil assets (sale of exploitation licences – see Topic 12 of Annex I). It should be encouraged to consider the work of the IASB, and the IASB should be encouraged to consider its work. (HOT's technical issues overview paper "Issue 2.5")</p>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
6: FINANCIAL INSTRUMENTS	6.1	Recognition and derecognition of financial instruments: (a) Debt assumption (b) Debt cancellation (c) Debt rescheduling (d) Debt defeasance (e) Securitization	<p><b>General</b> No IPSAS on recognition/derecognition.</p> <p><b>IASB: IAS 39 Financial Instruments: Recognition and Measurement:</b> Initial recognition of financial instruments is at cost plus transaction costs (para. 66). For assets, after initial recognition, at fair value with no deduction for transaction costs on sale or disposal (para. 69) except for: (i) loans and receivables originated by the enterprise and not held for trading - with (a) fixed maturity measure at amortized cost using the effective interest method; (b) no fixed maturity, measure at cost. (ii) For liabilities, other than liabilities held for trading and derivatives that are liabilities, at amortized cost. (iii) For liabilities held for trading or derivatives, record at fair value.</p> <p>Derecognition when "enterprise loses control of the contractual rights that comprise the financial assets" (para. 35) and for "financial liabilities when, and only when, it is extinguished." (para. 57)</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, para. 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</i> Appendix 2)</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</i> Appendix 2)</p> <p>(d) Debt defeasance is where one unit removes liabilities from its balance sheet by pairing them with financial</p>	<p>(a) <i>EMGDD</i> provides rulings on the treatment of debt assumption. (b) <i>EMGDD</i> provides rulings on the treatment of debt cancellation. (c) <i>EMGDD</i> provides rulings on the treatment of debt rescheduling. (e) <i>EMGDD</i> provides rulings on the treatment of securitization</p>	<p><b>(a) Convergence process:</b> PSC action: consider improved IAS 39. The PSC may consider that it would be appropriate to make it clear that in the absence of an IPSAS, IAS 39 could be applicable by virtue of the IPSAS 1 (issued May 2001) hierarchy. 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 income statement (although see Issue 5.4 in broad category 10 – the last paragraph in the comments column). <i>GFSM 2001</i> requires clarification as it is not clear whether the increase in the government's equity, when the government does not acquire an effective claim on a public corporation that they own or control and which continues to be a going concern, is a transaction or an other economic flow.</p> <p><b>(b) Convergence process:</b> Consideration should be given to whether <i>GFSM 2001</i> derecognition requirements are aligned with the derecognition requirements in proposed revised IAS 39 (which is expected to continue to apply the concepts of, firstly, transfer of substantially all the risks of ownership and, secondly, loss of control).</p> <p><b>(c) Convergence process:</b> Reconciliation, even if IPSASs were to adopt improved IAS 39 and a transactions/other economic flow split, to the extent that <i>GFSM 2001</i> does not recognize revenue/expense arising from debt rescheduling. (Editor's note: the above comment reflects my current understanding of IAS 39 relative to <i>GFSM 2001</i>. I would expect IAS 39 to treat the item as a remeasurement because it would not meet the derecognition requirements. It is relevant to note that this difference between <i>GFSM 2001</i> and GAAP may relate to a broader issue of how each applies the notion of substance over form and how each regards the appropriateness of recognizing notional transactions. I acknowledge that alternatively it could be argued that rescheduling is in substance settlement of one debt and entering into another).</p> <p><b>(d) Convergence process:</b> Consideration should be given to whether there is a difference in the requirements under <i>GFSM 2001</i> and IPSAS 1.5 (para 39) relating to the set off of assets and liabilities. Consideration should also be given to the likely implications of any changes that may be made to IAS 39 in relation to debt defeasance and IAS 32 (revised 1998) in relation to offsetting (we are not aware of any at this stage).</p> <p><b>(e) Convergence process:</b></p> <ul style="list-style-type: none"> <li>PSC action: consider improved IAS 39 – whether directly, or indirectly through a review of the IPSAS 1 hierarchy.</li> <li>IMF action: clarification of <i>GFSM 2001</i>.</li> </ul>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
	6.3	Currency on issue/ (a) notes (b) coins  (This is both a whole of government issue and a sector issue)	No IPSAS  Consider application of principles in ITC on Non-Exchange Revenue being developed.	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 GFSM 2001, 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. (GFSM Appendix 2)  (e) Special Purpose Vehicles (SPVs) can be set up when governments undertake securitization. The classification of SPV's requires clarification  There is a liability for notes and coins on issue. For notes it is generally the central bank that has the liability and for coins the treasury.  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 (GFSM 1986, page 332). GFSM 2001 does not specifically address seigniorage. However, para. 6.25 states that materials used to produce coins and notes of the national currency or amounts payable to contractors to produce the currency are to be included in use of goods and services, that is, as an expense, as they enter the production process. The notes and coins produced, while as work in progress or as finished goods, would be recorded at market value (which is the current price of production costs incurred as of balance sheet date for work in progress, and the sales value for finished goods) on balance sheet as inventories. The change in value would be recorded as an other economic flow. A central bank records seigniorage as revenue, and the	Same as GFSM 2001	As with (b), consideration should be given to whether GFSM 2001 derecognition requirements align with the derecognition requirements in proposed revised IAS 39 (which is expected to continue to apply the concepts of, firstly, transfer of substantially all the risks of ownership and, secondly, loss of control).  <b>Link to other issues:</b> In relation to (a), see Issue 2.2 re contributions from owners. In relation to (b), see Issue 8.1(c)(xii) re bad and doubtful debts and Issue 5.5 re non-performing loans.  <b>Link to WGII:</b> WGII Topic 2, privatizations, restructuring agencies, SPVs and securitization.  (HOT's technical paper "Issue 3")  <b>Convergence process:</b> It is suggested that PSC and IMF address the issues jointly, including issues regarding differential treatment of notes and coins, from a whole of government and sector perspective and in the context of the PSC ITC on non-exchange revenue. Request ISW/GNA to 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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Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
				remittance to the government is recorded as non-tax revenue.		

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<b>7: TIME SERIES</b>	7.1	<p>Prior period adjustments/back casting</p> <p>(a) general</p> <p>(b) taxes</p> <p>(c) prior period revisions:</p> <p>(i) preliminary (change in estimates)</p> <p>(ii) correction of errors in accounting policies</p> <p>(iii) involuntary changes in accounting policies</p>	<p>(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).</p> <p>(b) No IPSAS. See PSC ITC on non-exchange revenue.</p> <p>(c) Prior period revisions: generally, items are attributed to relevant periods (or an option exists to do so), but there are exceptions. IASB is evolving (see improvements to IASs 1 and 8 and the IASB Comprehensive Income project and its potential impact on IASs 1 and 8) and IPSASs may also evolve to align with IASB.</p> <p>Benchmark treatment for voluntary changes is retrospective application if reasonably determinable.</p> <p>Paragraph 33 of IPSAS 3 "Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies" (issued May 2000) requires the effect of a change in an accounting estimate to be 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.</p> <p>IPSAS 14 "Events After the Reporting Date" (issued December 2001), which anticipates that events that occur after the reporting date but before the date when the financial statements are authorized for issue may be required to be recognized in the financial statements as at the reporting date, may also be relevant.</p>	<p>(a) &amp; (b) 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. (GFSM para 3.41)</p> <p>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. (GFSM para. 5.21)</p> <p>(c) 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.</p>	<p>EMGDD 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>	<p><b>Convergence process:</b></p> <ul style="list-style-type: none"> <li>(b) IMF should monitor proposals in PSC ITC (note also WGII Topic 3). No other action required at this time (except to the extent to which (c)(i)/(ii) apply). In relation to taxes, both <i>GFSM 2001</i> and IPSASs are consistent in principles but both acknowledge that time of recording, in practice, may be different, e.g., at time of assessment.</li> <li>(c)(ii) PSC action: consider improved IAS 8 (issued January 2004). If PSC were to adopt IAS 8 (improved), 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 action would be required on this aspect.</li> <li>(c)(iii) No action required (and therefore this item could be shifted to broad category 10).</li> <li>(c)(i), (ii) &amp; (iv) Reconciliation, where reconciling differences remain in relation to: <ul style="list-style-type: none"> <li>(e)(iv) involuntary changes in accounting policies – 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 this approach is adopted in IPSASs, no reconciling difference will exist, but this is not likely).</li> <li>(c)(i) vs (ii), to the extent that <i>GFSM 2001</i> treats something effectively as a correction of an error that PSC treats as a change in estimate (for example, uncollectible taxes, tax credits).</li> </ul> </li> </ul> <p><b>Link to WGII:</b> WGII (Topic 3) Tax revenue, uncollectible taxes, tax credits.</p> <p>A related issue is the definition of "material". In its Glossary, the PSC notes that "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." 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 – see issue 9.1 (g).</p> <p>(HOT's technical paper "Issue 1.1")</p>



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<p><b>8: FINANCIAL STATEMENTS (FOR THE REPORTING ENTITY AND/OR SECTORS THEREOF)</b></p>	<p>8.1</p>	<p>General</p>	<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>The IASC's "Framework for the Preparation and Presentation of Financial Statements" (adopted in April 2001) is a relevant reference for users of IPSASs.</p> <p>IPSAS 1 prescribes the minimum information that must be provided in financial statements. Other IPSASs deal with specific issues and specify additional required disclosures. The totals and sub-totals included are net assets, total net assets/equity, surplus/(deficit) from operating activities, surplus/(deficit) from ordinary activities, and net surplus/(deficit) for the period.</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. This information is supplemented by specific disclosures in IPSASs that deal with specific issues but is not as extensive as the GFSM 2001 classifications.</p>	<p>GFSM 2001 are presented in 4 financial statements - Statement of Government Operations, Statement of Sources and Uses of Cash, Statement of Other Economic Flows, and Balance Sheet (GFSM Chapter 4)</p> <p>"Analytical framework is a set of interrelated statements derived from the 1993 SNA that integrate stocks and flows." (GFSM 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. (GFSM 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). (GFSM Box 4.1)</p> <p>Classification of (1) revenue, expense, and flows and stocks in assets and liabilities by economic type, (2) expense by functions of government, and (3) transactions in financial assets and liabilities by sector. (GFSM Appendix 4)</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 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. (GFSM 2001, paras. 3.4-5). An other economic flow is a change in the volume or value of an asset or liability that does not result</p>	<p>Similar concepts to GFSM 2001 but a more complicated breakdown of the transaction accounts in order to identify GDP</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. 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 GFS Balance Sheet broadly corresponds to the IPSAS Statement of Financial Position.</p> <p>The GFS Statement of Sources and Uses of Cash is almost identical to the IPSAS Cash Flow Statement.</p> <p>The frameworks are very similar. However, the way in which the frameworks are presented through financial statements vary considerably. (HOT's technical paper "Pro-forma financial statements" and the attachments to the HOT's conceptual paper "Objectives of GAAP and GFS")</p>

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	8.1(a)	Format and presentation (including classification) of the cash flow statement	IPSAS 2 specifies that a cash flow statement is to be prepared to report cash flows (cash and cash equivalents) classified by operating, investing and financing 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.	from a transaction. (GFSM 2001, para. 3.25)		<b>Convergence process</b> In relation to cash flows: <ul style="list-style-type: none"> <li>PSC could consider a format in which cash surplus/deficit (as determined by GFSM 2001) is presented on the face of the Statement of Cash Flows.</li> <li>IMF could consider not allowing disclosure of notional cash flows relating to finance leases effectively on the face of the GFSM 2001 Statement of Sources and Uses of Cash (see issue 8.1(a)(i)).</li> </ul>
	8.1(a)(i)	Leases (in relation to cash flows)	IPSAS 6 does not allow entities to recognize a cash flow that has not actually taken place (e.g., imputed cash flows at the inception of a lease). IPSAS 6 places particular importance on recording actual cash flows in the statement of cash flows because of its importance in assessing the liquidity of the entity so the statement reflects actual cash flows.	GFSM 2001 does not prescribe treatment for the lease payment at the inception of a lease.	Same as GFSM 2001	<b>Convergence process:</b> Ask IMF to clarify the treatment of finance lease in the cash flow statement. (See issue 8.1 (a))
	8.1(b)	Format and presentation (including classification) of the statement of financial position	IPSAS 1 allows entities to determine whether or not to present separately current and non-current assets as separate classifications on the face of the statement, but does require disclosure of the non-current amounts for any asset or liability item presented. It also specifies minimum items to be disclosed on the face of the statement and items to be disclosed either on the face or in the notes, including further classifications appropriate to the entities.	See general comments in 8.1 above.		<b>Convergence process</b> In relation to the statement of financial position, generally no action is required – although see Issue 2.2.  <b>Link to other issues</b> Issue 2.2 re net worth.
	8.1(c)	Format and presentation (including classification) of the statement of financial performance				<b>Convergence process:</b> In relation to financial performance, one way forward would be for GFSM 2001 and IPSASs to agree on a comprehensive statement of financial performance that splits the comprehensive result into two components that aligns as far as possible with the GFSM 2001 approach. (That approach is similar to the before remeasurements/remeasurements split identified by the IASB as a possible format for reporting comprehensive income).  This broad category of issues and most of the other broad categories need to be considered in the context of the PSC response to the first question in broad 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”

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

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						<p>financial statements or are they only for presentation of financial information about the GGS in the notes or are they both.</p> <p>Issues for PSC to consider if PSC is to change IPSASs to facilitate GAAP/GFSM 2001 convergence include:</p> <ul style="list-style-type: none"> <li>• Should a statement of financial performance be prepared that reports comprehensive result. If yes, should it be a single statement and should the comprehensive result be split into two components?</li> <li>• How should the split be done?</li> <li>• If the split is on a GFSM 2001 basis, does PSC agree with the definition of “transactions”, particularly in relation to: <ul style="list-style-type: none"> <li>• Issue 5.8, in relation to dividends from associates,</li> <li>• Issue 5.12 in broad category 10, in relation to initial recognition of found/discovered nonfinancial assets,</li> <li>• issue 8.1(c)(vi) cultivated biological assets – change in fair value (in part),</li> <li>• issue 8.1(c)(ix) assets seized without equivalent compensation,</li> <li>• issue 8.1(c)(x) amortisation of nonproduced assets,</li> <li>• issue 8.1(c)(xi) depreciation/impairment of revalued assets,</li> <li>• issue 8.1(c)(xii) bad and doubtful debts,</li> <li>• issue 8.1(c)(xiii) excess of the acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost,</li> <li>• issue 8.1(c)(xiv) unfunded pension schemes – return on plan assets, and</li> <li>• issue 8.1(c)(xv) swap interest?</li> </ul> </li> <li>• Whether, and if so how GFS analytical balances (such as net lending/borrowing) should be presented? Is a Statement of Financial Performance and Fiscal Impact appropriate?</li> <li>• If GFS analytical balances are presented on the face of the statements, how should they be calculated – using (revised/harmonised) GAAP or GFSM 2001 measures of the underlying components?</li> <li>• How should any remaining reconciling differences between GFSM 2001 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)?</li> </ul> <p>It is arguably not necessary for the PSC 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 the PSC’s sector neutral principle. (This is particularly so if the approach of reporting of the GGS sector in a note to general purpose financial statements is adopted).</p>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
<p>The following 16 specific technical issues relate to some degree to performance reporting issues. They are subcategorized into the following types:</p> <p>A. items where GAAP and GFSM 2001 are expected to align in classifying items as other economic flows, and further classified as: <ul style="list-style-type: none"> <li>i. remeasurements</li> </ul> </p>	8.1(c)(i)	Type A Repurchase premiums and discounts on debt securities	No IPSAS IASB: Premiums and discounts on repurchased debt should be included as a gain or loss item in the Statement of Financial Performance as per IAS 39. Stock must be cancelled under accounting rules as it no longer meets the definition of a liability.	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.		<p>Depending on the outcome of deliberations on the above issues by the PSC, it may be appropriate to ask IMF to consider the following issues in relation to <i>GFSM 2001</i>:</p> <ul style="list-style-type: none"> <li>Should the Statement of Government Operations and the Statement of Other Economic Flows be combined into one Statement (that is, a two column approach)?</li> <li>Are the current definitions of “transactions” and “other economic flows” appropriate?</li> </ul> <p>If IMF and PSC could resolve performance reporting issues, many specific technical issues can be expected to be resolved, including:</p> <ul style="list-style-type: none"> <li>2.3(b) distributions receivable from controlled entities,</li> <li>8.1(c)(i) repurchase premiums and discounts on debt securities,</li> <li>8.1(c)(ii) unfunded pension schemes – actuarial adjustments,</li> <li>8.1(c)(iii) holding gains and losses,</li> <li>8.1(c)(iv) investment property – change in fair value,</li> <li>8.1(c)(v) financial instruments – change in fair value,</li> <li>8.1(c)(vi) cultivated biological assets – change in fair value (in part),</li> <li>8.1(c)(vii) initial recognition of other naturally occurring assets, and</li> <li>8.1(c)(viii) initial recognition of assets that were previously known to exist but acquire economic value for the first time as a result of a change in relative prices, technology or some other factor.</li> </ul> <p>In relation to the presentation of the Statement of Financial Performance (and transactions in non-financial assets), PSC could also consider encouraging adoption of <i>GFSM 2001</i> functional classifications (Classification of the Functions of Government – COFOG) for presentation purposes.</p>
	8.1(c)(ii)	Type A Defined benefit pension schemes – actuarial adjustments	No IPSAS IASB: under IAS 19 (revised 2000) Government defined benefit pension schemes: Employer contributions, interest, and actuarial gains and losses are treated as revenue or expense items in the income statement.	Obligations of employer social insurance pension schemes (funded and unfunded) are recognized in the <i>GFSM 2001</i> . ( <i>GFSM</i> Annex to Chapter 2). Transactions in these schemes occur as a result of contributions receivable, interest payable due to the passage of time, and liabilities for employer	Eurostat has established a task force on pension schemes; but this is just dealing with sector classification issues.  <i>SNA</i> does not recognize liabilities for employer	<p>Recording of the liability redemption is the same in both systems but the treatment of the price change is not.</p> <p><b>(Convergence process:</b> PSC action: consider adopting IAS 39 and performance reporting [as described in Issue 8.1 (c) above].</p> <p>If IPSASs were to adopt a transactions/other economic flow split, the difference would be resolved – both <i>GFSM 2001</i> and GAAP would classify it as “other economic flows – remeasurement”.</p> <p><b>(Convergence process:</b> PSC action: consider adopting improved IAS 19 and performance reporting [as described in Issue 8.1(c) above].</p> <p>If IPSASs were to adopt IAS 19 (improved) and a transactions/other economic flow split, the difference would be resolved (both <i>GFSM 2001</i> and IPSASs would recognize actuarial adjustments as “other economic flows – remeasurements”).</p>

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Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
<ul style="list-style-type: none"> <li>• ii other volume changes</li> <li>• B items where GAAP and GFSM 2001 are not expected to align in classifying items as:               <ul style="list-style-type: none"> <li>• transactions</li> <li>• other economic flows:</li> <li>-remeasurements</li> <li>-volume changes</li> </ul> </li> </ul>	8.1(c)(iii)	Type A1 Holding gains and losses (including gain or loss on sale of assets)	<p>IASB is currently reviewing IAS 19. It is expected that the IASB will propose an improved IAS 19, to be applicable in 2006, that will allow a choice between the "corridor" and full recognition of actuarial gains and losses. It is expected that the IASB will also propose that where the full recognition of actuarial gains and losses option is adopted, a choice should be allowed between recognition in profit/loss or direct to equity.</p> <p>IASB also has a long-term convergence project on IAS 19. It is expected that the revised standard will remove the corridor option, therefore requiring full recognition of actuarial gains and losses in the period they arise.</p>	<p>benefits payable. Any other amounts arising from actuarial gains and losses are recorded as other economic flows and should be recorded in the relevant periods.</p>	<p>social insurance unfunded pension schemes.</p>	<p>IMF is hosting an EDG (Topic 10) on pension schemes and the moderator's report will feed into the SNA Review.</p> <p><i>(HOT's technical paper "Issue 2.1", which is in the process of being further developed by South Australia and NSW treasuries)</i></p>
	8.1(c)(iii)	Type A1 Holding gains and losses (including gain or loss on sale of assets)	<p>Asset revaluation increments for property, plant and equipment are taken to the asset revaluation reserve (an 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. For foreign exchange gains and losses, in most cases, both realized and unrealized gains and losses measured either at the date of the transaction or the reporting date are recorded as revenue or expenses in the Statement of Financial Performance.</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. ( GFSM paras. 10.4-10.27)</p> <p>Holding gains and losses are offset on a category (a concept that is equivalent to the class concept in IPSASs) of assets basis. Foreign exchange gains and losses are recorded as other economic flows.</p>	<p>Same as GFSM 2001</p>	<p>GFSM 2001: All revaluations including market value movements arising immediately prior to the sale are treated as other economic flows.</p> <p><b>Convergence process:</b> PSC action: consider performance reporting [as described in Issue 8.1(c) above].</p> <p>If IPSASs were to adopt a transactions/other economic flows split, the difference would be resolved (both GFSM 2001 and GAAP would classify it as "other economic flows – remeasurements").</p> <p><b>Link to other issues:</b> Issue 9.1(h) re class of assets. <i>(HOT's technical paper "Issue 2.3")</i></p>
	8.1(c)(iv)	Type A1 Investment property – change in fair value	<p>IPSAS 16 <i>Investment Property</i> 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." Initially it should be measured at its cost (including transactions costs) or if</p>	<p>Treated the same as any other property and is measured at market value. Consumption of fixed capital (CFC) is expensed (See CFC vs depreciation) and changes in market value are treated as other economic flows.</p>		<p>IPSAS 16 provides a measurement option. It would be necessary for an entity to choose the fair value option to achieve convergence.</p> <p><b>Convergence process:</b> PSC action: consider performance reporting [as described in Issue 8.1(c) above] and consider removing the option in IPSAS 16 and instead requiring fair value.</p> <p>If IPSASs were to adopt a transactions/other economic flow split, the difference would be resolved, subject to the issue of depreciation. In relation to depreciation of investment property, PSC could be asked to</p>

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			acquired at no cost, or for a nominal cost, at its fair value at the date of acquisition. An entity may decide, subsequent to initial recognition, to adopt either the fair value model or cost model for subsequent measurements. Under the fair value model, a gain or loss arising from a change in fair value will be recorded as a revenue or expense for the period in which it arises. Under the cost model, the property should be measured using the benchmark method in IPSAS 17 and the property will be depreciated.			consider whether depreciation should be required to be recognized for the building component of investment property measured at fair value and to be presented as a transaction separately from price change (which would be presented as an "other economic flow – remeasurements"). Depending on the outcome of PSC deliberations, a reconciling item may remain in relation to depreciation.  <i>(HOT's technical paper "Issue 6.1")</i>
	8.1(c)(v)	Type Aii Financial instruments – change in fair value	No IPSAS IASB: IAS 39	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)	Same as <i>GFSM 2001</i>	<b>Convergence process:</b> PSC action: consider adopting improved IAS 39 [whether directly, or indirectly through the IPSAS 1 hierarchy] and performance reporting [as described in Issue 8.1(c) above]. It is not recommended at this time that PSC amend IAS 39 to limit the options available to those that align with <i>GFSM 2001</i> .  If IPSASs were to adopt improved IAS 39 (which has an option to designate all financial instruments as "a financial asset or financial liability at fair value through profit or loss" – although see the last paragraph in this column in Issue 5.4 in broad category 10 – which would result in all financial instruments being measured at fair value with changes in fair value recognized in the comprehensive financial performance report) and a transactions/other economic flow 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").  Consideration should be given to financial performance reporting by financial institutions (and whether changes in current value should be treated as transactions rather than other economic flows). Also, consideration should be given to the treatment of interest flows. (Note: EDG 5 has closed).  <b>Link to WGII:</b> WGII (Topic 1) Government transactions with public corporations. <i>SNA</i> 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 broad category 2.  <i>(HOT's technical paper "Issue 3")</i>
	8.1(c)(vi)	Type Aii Cultivated assets (i.e. biological assets) – change in fair value	No IPSAS IASB: IAS 41 Biological assets are living animals or plants. They should produce other goods and services.	Cultivated assets consist of animals and plants that are used repeatedly and continuously for more than one year to produce other goods and services.	Same as <i>GFSM 2001</i>	<b>Convergence process:</b> PSC action: consider IAS 41 and performance reporting [as described in Issue 8.1(c) above].

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			<p>be measured "on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs ..." (IAS 41 <i>Agriculture</i>, para. 12)</p> <p>Under its performance reporting project, the IASB is expected to differentiate between price and volume changes.</p>	<p>Animals are valued at current market prices and plants at written-down replacement cost. ( <i>GFSM</i> paras. 7.48 - 7.50)</p> <p>The treatment of changes in carrying amounts depends on whether the cultivated assets are treated as fixed assets, inventories (work-in-process), or own account capital formation. For the latter, they are treated as being acquired by their users at the same time as they are produced (transaction). Cultivated assets are treated as WIP if their production is not complete at the end of the accounting period and fixed assets once production is complete. If they are WIP, the volume change would be a transaction, ie production in the national accounts. If they are treated as fixed assets, there can be two types of volume change – one associated with production (transaction) and the other for exceptional losses. The latter would be an other economic flow.</p>		<p>If IPSASs were to adopt IAS 41 and a transactions/other economic flow split, the difference would be resolved in certain circumstances (both <i>GFSM 2001</i> and IPSASs would recognize price change as an "other economic flow – re-measurement" and volume change as a "transaction"). However, in other circumstances the difference would not be resolved (and therefore a reconciling item would be required) to the extent that, under <i>GFSM 2001</i>, price and volume changes are both classified as "other economic flows".</p> <p>Consideration should be given to:</p> <ul style="list-style-type: none"> <li>The implications where the split between price and volume change cannot be determined without undue cost or effort? (IASB's 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).</li> <li>Are there any issues relating to cultivated biological assets that are not held primarily for profit? (IAS 41 is applicable to for-profit entities).</li> <li>What are the implications of IAS 41's acknowledgement that fair value may not be able to be determined reliably – see Issue 9.1(j)?</li> </ul> <p><b>Link to other issues:</b> Issue 5.4(a) and the treatment of point-of-sale costs by IAS 41, and Issue 5.11 relating to the valuation of biological assets. (<i>HOT's technical paper "Issue 2.4"</i>)</p>
	8.1(c)(vii)	<p>Type Aii Initial recognition of other naturally occurring assets (including noncultivated biological assets, water resources, and the electromagnetic spectrum) [that is, assets that previously did not exist]</p>	<p>Natural increases of animals or forests - IAS 41 would require recognition in the Statement of Financial Performance.</p>	<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)</p>	<p>Same as <i>GFSM 2001</i></p>	<p><b>Convergence process:</b> PSC action: consider the principles in IAS 41 and performance reporting). In relation to assets created by exertion of ownership rights over naturally occurring assets, if IPSASs were to adopt a transactions/other economic flow 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><b>Link to other issues:</b> Board category 5 re measurement of assets.</p>
	8.1(c)(viii)	<p>Type Aii Initial recognition of assets that were previously known to exist but acquire economic value for the first time as a result of a change in relative prices, technology or some other factor. [that is, assets that previously existed and</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" IPSAS 1</p> <p>An item of property, plant and equipment should be recognized as an asset when: (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity;</p>	<p>All assets recorded in the GFS system are economic assets, which are entities over which ownership rights are enforced by institutional units, individually or 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,</p>	<p>Same as <i>GFSM 2001</i></p>	<p><b>Convergence process:</b> PSC action: consider performance reporting [as described in Issue 8.1(c) above]. To the extent that "initial recognition" effectively occurs through the process of revaluation and assuming that IPSASs adopt a transactions/other economic flow split, the difference would be resolved (<i>GFSM 2001</i> would recognize the "initial recognition" as an "other economic flow – other volume changes". IPSAS treatment could be the same depending on the outcome of the performance reporting project if agreed by PSC).</p> <p><b>Link to other issues:</b></p>

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		were always controlled, for example, a deposit of subsoil assets that may become exploitable as a result of technological progress or relative price change. Improved access or changes in relative prices may make large-scale harvesting of timber, fish etc [feasible]	(b) the cost or fair value of the asset to the entity can be measured reliably" IPSAS 17  IASB Framework – (there is not a comprehensive IPSAS Framework) "An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably." " No distinction is made between different types of assets and a transaction is recorded to add it to the balance sheet.	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. (GFSM 10.30-10.36)		Issue 8.1(c)(x) re amortisation of intangible non-produced assets. (HOT's technical paper "Issue 2.6")
	8.1(c)(ix)	Type B Assets seized without equivalent compensation [that is, assets that previously existed but were not previously controlled]	See issue 8.9 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. (GFSM 2001 para. 10.49)		<b>Convergence process:</b> PSC action: consider performance reporting [as described in Issue 8.1(c) above]. PSC could be asked to consider whether the item gives rise to a transaction or other economic flow. If its conclusion differs from current GFSM 2001 treatment, ISWGNA could be asked to reconsider its position.
	8.1(c)(x)	Type B Amortisation of intangible nonproduced assets [that is, assets recognized without capitalising costs]	Amortization is treated as the conceptual equivalent of depreciation and is expensed during the period.  IASB: IAS 38, and proposed IASB amendments.	Nonproduced assets are assets needed for production that have not themselves been produced, such as land, subsoil assets, and certain intangible assets. (GFSM 2001 para 4.40)  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, use estimates of the net present value of expected future returns. ( GFSM paras 7.78 - 7.81) Amortization is treated as an other economic flow (GFSM para. 10.42)	Same as GFSM 2001	<b>Convergence process:</b> PSC action: consider suitability of IASB decisions relating to IAS 38 and performance reporting [as described in 8.1(c) above].  Even if IPSASs were to adopt a transactions/other economic flow split, it is likely that IPSASs would (continue to) treat amortisation of intangible nonproduced assets as transactions, rather than as other economic flows.  Depending on the outcome of PSC deliberations on the distinction between transactions and other economic flows, ISWGNA could be asked to consider treating amortisation of intangible nonproduced assets as a transaction.  See OECD Canberra II Group (see Topic 27 in Annex I).  <b>Link to other issues:</b> Issue 8.1(c)(viii) re initial recognition of assets that were previously known to exist but acquire economic value for the first time as a result of a change in relative prices, technology or some other factor. See also Issue 3.1 (R&D and intangible assets).  (HOT's technical paper "Issue 4.4")



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	8.1(c)(xi)	Type B Depreciation/ Impairment of revalued assets	Depreciation is recognized as an expense in the statement of financial performance. ED 23 proposes that Investment Property and non cash generating property, plant and equipment of non-GBEs that are measured at fair value in accordance with IPSASs 16 and 17 need not be subject to separate impairment test.	Treated as an other economic flow.		<b>Convergence process:</b> PSC action: consider performance reporting [as described in Issue 8.1(c) above]. Ask PSC to 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.
	8.1(c)(xii)	Type B Bad and doubtful debts	Both provisions and write-off of specific debts are treated as part of operating expenses in the current period with the offset being a contra asset to the receivable. The contra asset is not a liability of the entity. Where write-offs are made, they are offset against the contra asset already made. By creating a contra asset, an entity is ensuring that the fair values of their receivables are reflective of the real value to the owners of the entity.	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</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</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.	<b>Convergence process:</b> PSC could be asked to consider whether bad and doubtful debts are transactions or other economic flows. If IPSASs were to adopt a transactions/other economic flow 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).  A reconciliation difference may remain, because it is likely that a difference between <i>GFSM 2001</i> and IPSASs will remain even if IPSASs were to adopt a transactions/other economic flow split.  <b>Link to other issues:</b> See issue 5.5 re non-performing loans.  ( <i>HOT's technical paper "Issue 4.2"</i> )
	8.1(c)(xiii)	Type B Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	No IPSAS IASB: IAS 22 (revised 1998) (see also IASB ED 3)	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 transactions should be partitioned into 2 transactions, one that is only an exchange and one that is only a transfer. For example, if a good were sold for less than market value, the sale should be recorded at market value and a transfer (expense) recorded for the difference between the market value and the actual sale price.  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	Same as <i>GFSM 2001</i>	Where the fair values of identifiable net assets acquired exceed the cost of acquisition, a question arises as to how to treat the excess. It is expected that the IASB will require the recognition of revenue immediately.  This has performance reporting implications.  <b>Convergence process:</b> 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 emerging IASB approach to accounting for the excess over cost and a transactions/other economic flow split) to the extent that IPSASs treat the excess as a transaction, and <i>GFSM 2001</i> treats it as an other economic flow.  ( <i>HOT's technical issues overview paper – last page</i> )

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
	8.1(c)(xiv)	Type B Partially funded defined benefit pension schemes – return on plan assets	No IPSAS. IASB: IAS 19, under which the interest cost on the unfunded liability is calculated based on the gross defined benefit obligation and the expected return on plan assets is on the gross assets of the plan. The discount rate to be used on the gross liability is the market yields at the balance sheet date on high quality corporate bonds [or on government bonds in countries where this no deep market in high quality corporate bonds] (para 78). The expected return on plan assets is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation (para 106). IAS 19 does not specify whether current service cost, interest cost and the expected return on plan assets should be presented as components of a single item of income or expense on the face of the income statement (para 119).  IASB is currently reviewing IAS 19. It is expected that the improved IAS 19, to be applicable in 2006, will allow a choice between the “corridor” and full recognition of actuarial gains and losses. Where the full recognition of actuarial gains and losses option is adopted, IAS 19 will allow a choice between recognition in profit/loss or direct to equity. The unwinding of the discount is to be recognized in profit/loss. The expected return on plan assets is to be recognized in profit/loss and any variance from the expected return on plan assets (that is, actuarial gains and losses) is to be recognized directly in equity.	economic flow. Under GFSM 2001, interest is calculated by applying an appropriate interest rate to the net unfunded balance, and it is classified as a transaction.  GFSM recognizes immediately net unfunded positions of employer schemes including, as other economic flows, actuarial gains and losses and holding gains and losses on assets (difference between actual return and GFSM income on assets).		<b>Convergence process:</b> PSC action: consider improved IAS 19 and the transactions/other economic flows dichotomy.  Because both GAAP and GFSM 2001 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 would arise in relation to the rates used – and therefore a reconciling difference exists.  In relation to the calculation of return on plan assets (GAAP adopts expected returns on plan assets), PSC could be asked to consider whether notional return (whether interest or other type of return) on plan assets is a transaction or other economic flow. To the extent that it concludes differently from GFSM 2001, a reconciling item may remain.  In relation to the calculation of the unwinding of the discount on the unfunded liability (GAAP adopts the high quality corporate bond rate where there is a deep market in such bonds), GFSM 2001 could consider the GAAP approach. A reconciling difference may also remain.
	8.1(c)(xv)	Type B Swap interest	Interest is recorded as a revenue or expense in the Statement of Financial Performance. Treatment is classified based on the underlying nature of the instrument that it relates to. Realized and unrealized movements are recorded as revenues or expenses in	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	Same as GFSM 2001	<b>Convergence process:</b> PSC could be asked to consider the appropriate treatment of swap interest in the context of transactions/other economic flows. Depending on the outcome of PSC 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

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
			the Statement of Financial Performance.	liability. Any cash settlement payment is recorded as a transaction in financial derivatives. (GFSM 9.44-9.49) Holding gains and losses are recorded as other economic flows.		(expense), rather than as an other economic flow or a transaction in financial derivatives.  Depending on the outcome of PSC deliberations, ISWGNA could be asked to consider treating swap interest as an expense.  (HOT)'s technical issues overview paper "Issue 3.1")
	8.1(c)(xvi)	Type B Tax credits	Not specifically addressed by IPSASs. Subject of an ITC on non-exchange revenue	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. ( GFSM 5.23)	Same as GFSM 2001	OECD Revenue Statistics 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).  This issue is arguably a lower order GAAP/GFS convergence issue as, like tax gap (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.  <b>Convergence process:</b> PSC action: progress the ITC on non-exchange revenue. PSC uses the terms "tax expenditures" and "taxes paid through the tax system", and it is necessary to clarify whether "tax credits" (and its treatment under GFSM 2001) aligns with the ITC notions and treatments – see broad category 9 – Issue 9.1(e).  <b>Link to WGII:</b> WGII (Topic 3) Tax revenue, uncollectible taxes, tax credits.

## COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
9: TERMINOLOGY AND DEFINITIONS	9.1	Terminology and definitions	Terms used in <i>GFSM 2001</i> may have the same or different meanings to the same terms used in IPSASs or different terms for the same meaning may be used in IPSASs. See <i>GFSM 2001</i> and IPSAS <i>Glossary</i> .	Terms used in <i>GFSM 2001</i> may have the same or different meanings to the same terms used in IPSASs or different terms for the same meaning may be used in IPSASs. See <i>GFSM 2001</i> and IPSAS <i>Glossaries</i> .	Same as <i>GFSM 2001</i> generally, but there are some differences.	<p><b>Convergence process:</b> In the interest of ongoing convergence, it would be appropriate to align definitions by using the same words where there is no intended difference in meaning but different wording of the definitions have evolved (for example, assets, liabilities, revenue, expenses, net assets/equity, contributions from owners).</p> <p>Furthermore, consideration could be given to the implications of the differences, and depending on the outcome of that consideration, one framework could contemplate adopting the definitions in the other framework 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).</p> <p>Furthermore, <i>GFSM 2001</i> could 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 PSC context. Also, the term “net lending/borrowing” would possibly translate to “change in net financial assets” in a PSC context.</p> <p>Adopting this convergence process may help avoid any unintended differences going forward.</p>
	9.1(a)	Assets	“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”.	<i>GFSM 2001</i> para 7.4 defines assets as 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. Para 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><b>Convergence process:</b> ISWGNA could consider adopting PSC definition, particularly relating to ownership vs control and “past event”.</p>
	9.1(b)	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”  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)		<p>Although fair value (PSC) and market value (<i>SNA/GFSM 2001</i>) are similar, they are not the same. Further work should be undertaken to ensure that unintended differences do not arise.</p> <p><b>Convergence process:</b> OECD Canberra II Group will consider the issue (as part of Topic 11). ISWGNA could consider adopting PSC definition and clarification.</p>
9.1(c)	Correction of error/change of estimate					<p>In practice, it is possible that what <i>GFSM 2001</i> treats as a correction of an error is treated as a change of estimate under GAAP.</p> <p><b>Convergence process:</b> Encourage IMF and PSC to align definitions. To the extent differences</p>

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

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	9.1(d)	Public sector for-profit entities	Government Business Enterprise 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." Commentary in IPSASs states that GBEs include both trading enterprises, such as utilities, and financial enterprises, such as financial institutions. GBEs are, in substance, no different from entities conducting similar activities in the private sector. GBEs generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either no charge or a significantly reduced charge. IPSAS 6 provides guidance on determining whether control exists for financial reporting purposes, and should be referred to in determining whether a GBE is controlled by another public sector entity.	Public Non-Financial Corporations and Public Financial Corporations are legal entities that are created for the purpose of producing goods and services for the market. (GFSM 2001 para. 2.14) Public corporations are resident corporations controlled by general government units (GFSM 2001 para. 2.61)		remain, reconciliation would be required.  <b>Link to other issues:</b> Issue 7.1 re prior period adjustments/back casting.  <b>Convergence process:</b> Encourage WGH (Topic 4) and PSC to align terminology/definitions. To the extent differences remain, reconciliation would be required.
	9.1(e)	Negative tax revenue	Tax expenditures/Expenses paid through the taxation system – see the ITC on "Revenue from Non-Exchange Transactions (Including Taxes and Transfers – Tax expenditures are preferential provisions of the tax law that provide taxpayers with concessions that are not available to others (para 3.24). Expenses paid through the tax system are items that are available to beneficiaries regardless of whether or not they pay	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. (GFSM 2001 para. 5.23)  A "tax credit" under imputation systems of corporate income tax, is treated as a negative tax rather than		<b>Convergence process:</b> Encourage WGH (Topic 3) and PSC to align terminology/definitions. To the extent differences remain, reconciliation would be required.

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
	9.1(f)	Tax gap	<p>taxes. (para 3.25)</p> <p>Tax gap – see the PSC ITC on “Revenue from Non-Exchange Transactions (Including Taxes and Transfers)” – 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 (para 3.9)</p>	<p>expense. (GFSM 2001 para. 5.34)</p> <p>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. (GFSM 2001 para. 3.56-57)</p>		<p><b>Convergence process:</b></p> <p>Encourage WGII (Topic 3) and PSC to align definitions. To the extent differences remain, reconciliation would be required.</p>
	9.1(g)	Materiality	<p>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.”</p>	<p>Not mentioned in GFSM.</p>		<p><b>Convergence process:</b></p> <p>Encourage ISWGNA to articulate a concept of guidance on materiality along the lines of PSC.</p>
	9.1(h)	Class/category of assets	<p>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.”</p>	<p>Assets and liabilities are classified by type.</p>		<p><b>Convergence process:</b></p> <p>Encourage IMF and PSC to align terminology/definitions. To the extent differences remain, reconciliation would be required.</p> <p><b>Link to other issues:</b></p> <p>Issue 8.1(c)(iii) re holding gains and losses.</p>
	9.1(i)	Net assets/net worth	<p>Net assets/equity: “The residual interest in the assets of the entity after deducting all its liabilities”.</p> <p>Commentary in IPSAS 1 notes that ““Net assets/equity” is the term used in this series of Standards to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.</p>	<p>Net worth is defined as total assets less total liabilities. Total liabilities include shares and other equity (public corporations only)</p>		<p><b>Convergence process:</b></p> <p>Encourage ISWGNA to consider changing its terminology to avoid confusion.</p>
	9.1(j)	Asset recognition criteria	<p>IPSAS 17 specifies that an item of property, plant or equipment should be recognized when 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 can be measured reliably</p>	<p>GFSM 2001 does not require reliable measurement as a condition for recognizing an asset.</p>		<p><b>Convergence process:</b></p> <p>Consider the implications for convergence in circumstances where a reliable measure of fair value cannot be determined, for example under IAS 39. (Editor’s note: the notion of “reliable measurement” may be a cause of a general difference between GFSM 2001 and GAAP. Does GFSM 2001 accept a measurement of current value that GAAP would regard as “unreliable”?)</p> <p>OECD Camberra II Group is considering whether to adopt the “reliable measurement” criterion as part of its Topic 11 (see Annex I).</p>

## COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
	9.1(k)	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." (IPSAS Glossary)	"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"		<b>Convergence process:</b> Encourage IMF and PSC to align terminology/definitions. To the extent differences remain, reconciliation would be required.

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
<b>10: ITEMS CONSIDERED AND FOUND NOT TO OR NOT EXPECTED TO BE A CAUSE OF A DIFFERENCE</b>	10.1	Uncollectible taxes – the tax gap	Not specifically addressed by IPSASs. Subject of an ITC on non-exchange revenue. 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 (see para 3.11 of the 4 December 2003 draft ITC).	Only those taxes that are evidenced by tax assessments and declarations, customs declarations, and similar documents are considered to create revenue for government units (GFSM 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. (GFSM para. 3.57)	ESA95 - clarification has been provided. 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 GFSM 2001 and IPSAS (depending on how each treats the tax gap), the net result would not differ.  <b>Convergence process:</b> PSC action: progress the ITC on non-exchange revenue.  It is apparent that, depending on the outcome of PSC deliberations on its non-exchange revenue invitation to comment, no difference exists.  <b>Link to other issues:</b> This issue is related to the measurement of revenue.  <b>Link to WGII:</b> WGII (Topic 3) Tax revenue, uncollectible taxes, tax credits.  <b>Convergence process:</b> No action required.
	10.2	Purchased goodwill of public corporations		Purchased goodwill is recognized through an other economic flow (other volume change). (GFSM 2001, para 10.35)	Same as GFSM 2001	<b>Convergence process:</b> No action required.
	2.4	Privatizations (a) sale of equity (b) sale of operations (c) sale of single assets  (this issue is relevant from a GGS and controlled entity perspective)	Paras 47 and 57(b)(iv) of IPSAS 6 are relevant here. While they have a wider implication than just privatization, (i) surplus/deficit on disposal of a controlled entity is recognized in the consolidated financial statements in the period that control is lost and (ii) disclosures of the financial effects of the disposal are required to be made.	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 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. (GFSM paras. 9.38 - 9.39)	EMGDD provides rulings on the treatment of privatizations.	<b>Convergence process:</b> No action required.  <b>Link to other issues:</b> Issue 8.1(c)(iii) – holding gains and losses.  <b>Link to WGII:</b> WGII (Topic 2) Privatizations and restructuring agencies, and securitization.
3.4	Land under roads	Recognized as an asset.	Land is the ground itself and major improvements that cannot be	Same as GFSM 2001	Same as GFSM 2001	IPSAS 17 (issued December 2001) provides a transitional period of 5 years during which its requirements can be phased in. In Australia, as



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				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</i> paras. 7.70 - 7.72)		measurement is an issue, an exemption has been given from recognition until 2006 (and that exemption is likely to be extended indefinitely – see Australian ED 125). However, in the UK, land under roads is valued for central government, and is likely to be also for local government.  <b>Convergence process:</b> No action required – both IPSASs and <i>GFSM 2001</i> require the recognition of land under roads (although note the transitional period in IPSAS 17).  <i>(HOT's technical issues overview paper- last page)</i>
	3.5	“Subscriptions” to international organizations	Accounting considers whether the costs of subscriptions satisfy the definition and recognition criteria for assets, including the reliability of measurement. Whether an asset is recognized will depend on whether there is ongoing benefit (for example as an investment in equity). If there is not, an expense is recognized.	Capital subscriptions to international nonmonetary organizations, which are returnable in the event a country's membership in the institution is terminated, are recorded as other investments/other assets. (BPM5 para. 422) BPM6	ESA 95 para 5.94: classified as “other equity”.	<b>Convergence process:</b> No action required (although IMF could consider clarifying that, depending on their nature, “subscriptions” to international nonmonetary organizations could give rise to expenses).  <b>Link to other issues:</b> Issue 6.2 IMF SDRs in broad category 10.  <i>(HOT's technical issues overview paper- Issue 4.3”)</i>
	5.1	Non cash flow generating assets	IPSAS 17 <i>Property, Plant and Equipment</i> requires cost or fair value (except heritage assets)	All assets are to be valued at market value. The <i>GFSM</i> provides some guidance on ways to estimate market value for assets that are non cash flow assets. ( <i>GFSM</i> paras. 7.22 - 7.30)	Same as <i>GFSM 2001</i>	<b>Convergence process:</b> No action required (although could consider improving/aligning guidance in IPSAS/ <i>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 PSC 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 [see broad category 9 Issue 9.1(b)]).
	5.2	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 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</i> para. 3.73)	Same as <i>GFSM 2001</i>	<b>Convergence process:</b> No action required. There is no conceptual difference between <i>GFSM 2001</i> and IPSASs in relation to the frequency of valuations.  <b>Link to other issues:</b> Issue 8.1(c)(iii) re gain/loss on sale of assets.
	5.4	Transaction costs: (a) acquisition of	IPSAS 17 <i>Property, Plant and Equipment</i> prescribes that “an item of	(a) Transactions costs (includes all transport and installation charges and	Same as <i>GFSM 2001</i>	<b>(a) Convergence process:</b> No action required. (EDG was 3 years ago).

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Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
		nonfinancial assets  (b) acquisition of financial assets	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 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.  (b) No IPSAS. Refer to IAS 39.	all costs of ownership transfer) are capitalized for non financial assets (GFSM paras. 7.22, 8.6 and 9.7).  (b) Transactions costs are called costs of ownership transfer in the GFSM. 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.(GFSM paras. 7.22, 8.6 and 9.7).		<p><b>(b) Convergence process:</b> PSC action: consider improved IAS 39 – revised January 2004.</p> <p>Under IAS 39 a financial asset or financial liability would be measured at fair value with changes recognized through profit/loss to the extent that it is (i) held for trading, or (ii) upon initial recognition designated as "a financial asset or financial liability at fair value through profit or loss".</p> <p>Under IAS 39, financial assets are measured at fair value with changes in fair value recognized in profit/loss except:</p> <ol style="list-style-type: none"> <li>1. loans, receivables and held to maturity investments which are all measured at amortized cost using the effective interest rate method;</li> <li>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, which are both measured at cost; and</li> <li>3. a available for sale financial assets.</li> </ol> <p>Under IAS 39, financial liabilities are measured at amortized cost using the effective interest rate method, except:</p> <ul style="list-style-type: none"> <li>• financial liabilities measured at fair value with changes in fair value recognized in profit/loss, which are measured at fair value;</li> <li>• derivative liabilities, the value of which is related to unquoted equity securities (the fair value of which cannot be determined), that must be settled in the unquoted equity security, which must be measured at cost; and</li> <li>• 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 is accounted for using the continuing involvement approach. Under the continuing involvement approach a liability is recognized to the extent of the entity's continuing involvement, which is determined by the extent to which the entity is exposed to changes in the value of the transferred assets.</li> </ul> <p>Transaction costs for financial instruments measured at fair value with changes in fair value recognized through profit/loss would be recognized in the profit/loss as incurred.</p> <p><i>As noted above, IAS 39 allows an entity to designate on initial recognition any financial instrument as an instrument that can be measured at fair value except unquoted equity securities and related derivatives for which fair value cannot be reliably measured. However, this option may be under review and the IASB may well limit its availability.</i></p>
	5.10	Lease liabilities	IPSAS 13 Leases (issued December 2001) prescribes finance lease liabilities to be measured at market value at the inception of the lease. Under IPSAS 13 finance lease liabilities are generally treated as if	Recorded as loans and valued at nominal value – where the discount rate used is the contract rate of interest (GFSM 2001 page 32, footnote 8)  GFSM 2001 para 3.76 states that	Same as GFSM 2001	<p><b>Convergence process:</b> No action required.</p> <p><b>Link to other issues</b> To the extent that the contract rate is less than the market rate, see Issue 5.6, re low interest and interest free loans. However, this is</p>

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Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
			they are non-marketable, fixed interest liabilities, i.e., the market value does not change.	"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 (GFSM 2001 para 7.111)		unlikely to be a significant issue.
	5.12	Found/discovered non-financial assets	IPSAS 17: property, plant and equipment (similarly for investment property IPSAS 16) are measured initially at cost (or where no or nominal exchange cost, at fair value) and subsequently "at cost less any accumulated depreciation and any accumulated impairment losses" (benchmark treatment) or at "a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses" (allowed alternative treatment).  Initial recognition of assets acquired at no cost or for nominal consideration would result in revenue recognition during the period. If the assets had already been recognized but were carried at zero then they would be effectively recognized through revaluation.	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. (GFSM 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 GFSM 2001	<b>Convergence process:</b> No action required in relation to measurement on initial recognition.  (Note, the AASB proposes in ED 125 to require measurement of previously contributed or acquired assets [that have not been previously identified and recognized as assets] at fair value as at the date of initial recognition, and to require the corresponding adjustment to be made directly against accumulated surplus [deficiency]. This requirement would only apply where it is impracticable to identify the fair value of assets as at the time of the initial contribution or acquisition).  <b>Link to other issues:</b> Issue 8.1(c)(viii) in relation to whether the initial recognition is as a transaction or an other economic flow and Issue 7.1(c)(i) in relation to correction of error when recognizing a subsequently found asset.
	5.15	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 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)	Consumption of fixed capital is the decline during the course of an accounting period in 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. (GFSM 6.33-6.38)	Same as GFSM 2001	<b>Convergence process:</b> No action required. OECD Canberra II Group (Topic 29) should be asked to 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 GFSM 2001 has more depreciable assets than PSC, for example, certain biological assets and investment property).
	6.2	IMF Special Drawing Rights (SDRs)	No IPSAS. Given the nature of SDRs, they would be revenue.	A SDR is a financial asset for which there is no corresponding liability, and	Same as GFSM 2001	(HOT's technical paper "Issue 7.3") <b>Convergence process:</b> No action required.

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in GFSM 2001	Treatment in ESA95/EMGDD/SNA	Comments
			<p>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. (GFSM paras. 7.95 - 7.96)</p> <p>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.</p>	<p>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. (GFSM para 3.41)</p> <p>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. (GFSM para. 5.21)</p>	<p>Same as GFSM 2001, but practical difficulties mean that cash is often recorded as a substitute</p>	<p><b>Link to other issues:</b> Issue 3.5 "Subscriptions" to international organisations, and Issue 8.1(c), generally, re whether they should be treated as revenues or other economic flows.  (See the HOT's technical issues overview paper "Issue 7.1")</p>
	7.2	Time of recording of tax revenue	<p>Taxes are non-exchange transactions and 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. (Draft ITC Revenue from Non-Exchange Transactions (Including Taxes, Transfers and Grants) - para 4.)</p>	<p>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. (GFSM para 3.41)</p> <p>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. (GFSM para. 5.21)</p>	<p>Same as GFSM 2001, but practical difficulties mean that cash is often recorded as a substitute</p>	<p><b>Convergence process:</b> No action 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, this issue should be monitored.  Furthermore, there may be a need for reconciliation re property taxes (when does GFSM 2001 of IPSASs recognize property taxes as revenue?).  <b>Link to other issues:</b> Issue 7.1(c)(i) re back casting.  <b>Link to WGII:</b> WGII (Topic 3) Tax revenue, uncollectible taxes, tax credits.</p>

**SECTION A of ANNEX I**

**UPDATING 1993 SNA: PROCESS AND ISSUES**

**Introduction**

1. The Intersecretariat Working Group on National Accounts (ISWGNA) was given a mandate to oversee the update of the *1993 SNA* with the objective of publishing revision 1 in 2008. In this endeavor, the Advisory Expert Group on National Accounts (AEG) to the ISWGNA, the electronic discussion groups (EDGs), the (Canberra II) Group on the Measurement of Non-financial Assets and task forces will all play key roles.

**Determination of issues for review**

2. The United Nations Statistical Commission has endorsed the list of issues to be updated that was submitted by the ISWGNA at the thirty-fourth session and recommended that it be open-ended to include items like consumer durables, the treatment of military equipment and return on capital assets of general government in order to ensure full accounting on general government.

3. The list of issues to be updated for the *1993 SNA Rev. 1* that was approved and amended by the Commission, may be expanded on the basis of recommendations by countries and after approval by the AEG.

4. 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 have been discussed and rejected before in the 1993 revision process but may need a further look 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 have been discussed and rejected before 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 have its internal consistency and consistency with related manuals such as the IMF's *Balance of Payments Manual*; and

- (vii) Any recommendation for change should address the implementation aspects in countries.

### **Governance and decision-making process**

5. 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. The list of issues to be considered for updating was approved in the first meeting of the AEG on February 16-20, 2004.

6. Issues are first deliberated by various existing 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 write the conclusions to be submitted to the ISWGNA. The recommendations of these groups of experts will then be forwarded to the AEG for discussion and final decision. The moderator or chairman of the expert groups is responsible for the preparation of the recommendations of the groups, with, if possible, indications of the paragraphs of the current *1993 SNA* that are impacted. The AEG will deliberate on the recommendations of the expert groups and propose for each one a final recommendation of 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 the AEG and the ISWGNA (25 voting members). Its recommendations 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.

7. Throughout the updating process of the *1993 SNA*, the ISWGNA will assess and evaluate the consistency with revision of the *Balance of Payments Manual 1995 (BPM5)* and, to the extent possible, with the *Government Finance Statistics Manual 2001 (GFSM 2001)*. For this end, the ISWGNA will liaise with the IMF's Balance of Payments Committee and the International Task Force on Harmonization of Public Sector Accounting. A deliberate coordination mechanism has been put in place consisting of (a) coordination within the international organizations and countries, (b) bringing *BPM5* and *GFSM 2001* issues to national accounts meetings and (c) inclusion of these consistency coordination issues in the agenda of the meetings of the AEG.

### **Deliberations on issues**

8. Deliberations on issues in the updating process include the following steps:
- (i) Deliberations on specific issues are carried out through expert groups that include the EDGs, city groups, regional commission meetings and the Canberra II group on non-financial assets during the 2003-2005 period. Depending on the final list of issues discussed in the first meeting of the AEG, other expert groups may be created. Tentative conclusions will be

circulated for comments to other regional and international expert group meetings on national accounts. Recommendations of the expert groups are forwarded to the ISWGNA to be presented for discussion and approval at the meetings of the AEG.

- (ii) The AEG meets three times in 2004 and 2005 to deliberate the recommendations of the expert groups. A voting procedure is a possibility open to reach more rapid decisions. An additional meeting of the AEG is planned in May 2006 for a review of the mutual consistency of the recommendations on the updated issues and the overall integrity of the system. A final meeting will be held in 2007 to adopt the proposed changes, taking account of countries' comments (see subparagraph iii below). Thus, tentatively, five meetings of the AEG are planned.
- (iii) The recommendations of the AEG will be sent to countries for comments after each meeting in the years 2004-2005.
- (iv) 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.

**Possible list of issues to be reviewed for SNA Rev 1<sup>8</sup>  
(Canberra II issues are indicated by an \*)**

1. Unfunded pension schemes for government employees
2. Employee stock options
3. Costs of ownership transfer\*
4. Insurance/reinsurance
5. Output of financial institutions
6. Military expenditures\*
7. Taxes on holding gains
8. Repurchase agreements
9. Originals and copies\*
10. Databases – clarify\*
11. Definition of economic assets – should we add a criterion of ‘reliability of measurement’?\*
12. Mineral exploration – clarify\*
13. Government owned assets – cost of capital services\*
14. Capital input into production account\*
15. Land\*
16. Macroeconomic aggregates in the system\* (rejected by AEG)
17. Cultivated assets\*
18. Treatment of non-performing loans
19. Treatment of interest under conditions of high inflation
20. Leases and licenses\*

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<sup>8</sup> A revised list based on discussions at the February 2004 AEG meeting was not available at the time of drafting.

## COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)

21. Borderline between rent/rental and sale\*
22. Classification of assets and terminology\*
23. Other classifications
24. BOOT schemes\*
25. Purchased goodwill and other non-produced assets (i.e. trademarks, brand names and franchises)\*
26. Asset boundary for non-produced intangible assets\*
27. Amortization of intangible non-produced assets\*
28. R&D (plus impact on patented entities)\*
29. Obsolescence/depreciation\*
30. Water\*
31. Consumer subsidies (rejected by AEG)
32. Government transactions with public corporations
  - 32.1 Earnings (reinvested earnings, dividends)
  - 32.2 Funding (dividends and capital injections)
33. Privatization/restructuring agencies and SPVs
  - 33.1 Privatization
  - 33.2 Agencies, bad banks and other SPVs
  - 33.3 Securitization
34. Tax revenue
  - 34.1 Tax revenue and accrual recording
  - 34.2 Tax credits
35. Private/public/government sector delineation
  - 35.1 Public vs. private: the definition of control (including BOOT schemes)
  - 35.2 Government vs. other public sector: the market/non-market criterion
36. Contingent assets/guarantees/provisions/constructive obligations
  - 36.1 Guarantees and loan partitioning

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

### Electronic Discussion Groups on National Accounts (EDGs)

The listed EDGs were created by the ISWGNA to generate discussion [or: to solicit views] on the topics that are important to National Accounts and may require updates in the *1993 SNA*.

- Each topic of discussion is administered by one expert associated with an international organization or a national office.
- EDGs are all linked to the web site of the United Nations Statistics Division: <http://unstats.un.org/unsd/nationalaccount/edg.htm>.
- EDGs maintained by OECD are protected. However, they are open to interested official statisticians. Because these sites can only be accessed with a password, for registration and password, contact: [marie.viriat@oecd.org](mailto:marie.viriat@oecd.org).
- Readers can, however, go directly to the individual EDG sites shown below.



With the exception of the EDG of the TFHPSA, 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 (under high inflation): [http://www.worldbank.org/data/working/iswgna\\_background.html](http://www.worldbank.org/data/working/iswgna_background.html).
4. Cost of transferring ownership of assets: <http://www1.oecd.org/std/transfsna.htm>
5. Accrual accounting of interest: <http://www.imf.org/external/np/sta/na/interest/>
6. EDG of Canberra II group on non-financial assets:  
<http://webdomino1.oecd.org/COMNET/STD/Canberra.nsf/Welcome?openframeset>
7. EDG on financial services in the national accounts:  
<http://webdomino1.oecd.org/std/finservice.nsf>
8. EDG on software: <http://webdomino1.oecd.org/std/software.nsf>
9. EDG on measurement of non-life insurance services:  
<http://webdomino1.oecd.org/std/inservice.nsf>
10. EDG on the treatment of pension schemes:  
<http://www.imf.org/external/np/sta/ueps/index.htm>

For a brief description of each of these EDGs, see the end of this Annex (Section C).

### **General Government specific issues**

Following the increasing role of national accounts data in the monitoring of the situation of the general government sector, in particular through the Maastricht criteria in Europe, it is essential that the revised SNA contains sufficiently detailed and up-to-date recommendations regarding (1) the delineation of general government sector and, (2) a harmonized treatment of specific transactions of the general government sector, such as capital injections, securitization, etc. A special appendix or chapter on general government will be included in the SNA. At the same time, the maximum will be done to coordinate these recommendations with the accounting principles of other international standards on public accounting such as the IMF GFS and the IPSAS of the IFAC-PSC.

### **EDG of the Task Force on Harmonization of Public Sector Accounts (TFHPSA)**

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

An international task force (TFHPSA) has been created in October 2003 to promote the convergence between GAAP, public accounts standards and GFS and the convergence between GFSM2001, SNA93 and ESA95 (the statistical systems). To meet this end, two working groups have been set up, with WGI focusing on public accounts (sources) and WGII focusing on the statistical systems. The TFHPSA will be a major provider of recommendations on the government and public sector accounts to the ISWGNA in the context of SNA reviewing (planned for 2008). The topics being considered by WGII are:

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

<b>Topics/issues</b>
1. <u>Government transactions with public corporations</u> 1.1 Earnings (reinvested earnings, dividends) 1.2 Funding (dividends and capital injections)
2. <u>Privatization / restructuring agencies and SPVs</u> 4.1 Privatization 4.2 Agencies, bad banks and other SPVs 4.3 Securitization
3. <u>Tax revenue</u> 3.1 Tax revenue and accrual recording 3.2 Tax credits
4. <u>Private / public / government sector delineation</u> 2.1 Public vs. private: the definition of control (including BOOT schemes) 2.2 Government vs. other public sector: the market / non market criterion
5. <u>Contingent assets / guarantees / provisions / constructive obligations</u> 5.1 Guarantees and loan partitioning

## SECTION B of ANNEX I

### **Brief description of possible list of issues to be reviewed for SNA Rev 1 (including Canberra II issues)**

1. *Unfunded pension schemes for government employees*

Many government employee superannuation schemes are unfunded or partially unfunded, but the SNA currently does not recognize a government liability in such cases. Several countries (e.g. Australia and Canada) have already departed from the SNA and recognize government liabilities as they accrue as well as the corresponding assets of households. The liabilities of government comprise the notional superannuation contributions and the property income they could be expected to have earned. A change to the SNA would be reflected in the balance sheets and income accounts. In concept, GDP would be unaffected by such a change because compensation of employees is currently defined to include imputed social contributions by employers providing unfunded social benefits. However, in practice, changes could occur if countries change the way they impute the values of unfunded social contributions. This issue could also be extended to non-government unfunded superannuation schemes.

2. *Employee stock options*

Should stock options be included in compensation of employees? If so, how should they be classified in the financial accounts and balance sheets, and what are the appropriate valuation and time of recording rules?

3. *Costs of ownership transfer*

This issue has been the subject of an EDG (moderator: Peter van der Ven) and discussion at two Canberra II meetings. Debate has revolved around the consistency of treatment of COT for different types of asset, whether COT on fixed assets should be completely expensed, and if not it how it should be recorded in respect of second hand sales and what its service life should be. A recommendation to the AEG will propose minor amendments, including setting the service life of COT to the expected period of ownership, rather than the expected service life of the underlying asset.

4. *Insurance/reinsurance*

The major issue concerns the volatility of the output of the insurance industry as currently measured. Should we redefine output in such a way that it reflects the actual activity of the industry, and is much smoother as a result? Two ways of achieving this are being considered: one is to replace claims by expected claims, and possibly replace premium supplements with expected premium supplements; and the second is to use accounting treatments in which reserves are used to cushion the variation in claims.

5. *Output of financial institutions*

Is FISIM, as described in the SNA, too narrow a concept of the output of financial institutions which leads to its understatement. The focus of the task force engaged on this issue is portfolio management and whether all securities should be considered in the indirect

measures of output of financial institutions. In particular, should holding gains/losses be included in the estimation of output, and, if so, whether they should be expected holding gains/losses.

6. *Military expenditures*

The current recommendation that expenditures on weapons and weapon platforms should be expensed, irrespective of their expected service lives, has been reviewed by Canberra II. It is to be recommended that all military assets which are expected to provide an on-going capability to achieve their military objective (including deterrence) for more than a year be capitalized.

7. *Taxes on holding gains*

Currently in the SNA capital gains and losses are not treated as income but as holding gains/losses, while taxes on holding gains are included in the secondary distribution of income account, along with income taxes. One outcome is that asset inflation tends to reduce the SNA's measure of household saving. For both conceptual and practical reasons, the majority of Canberra II members favor maintaining the status quo.

8. *Repurchase agreements*

The SNA currently treats repurchase agreements with cash as collateral loans (a newly created financial asset) unless they involve bank liabilities that are included in measures of broad money, in which case they should be classified as deposits. These treatments were adopted when the acquirer may not have the right to on-sell it. Given that legal change of ownership occurs virtually in all cases, what should be the appropriate treatment?

9. *Originals and copies*

The focus is on two questions, "How should expenditures on originals and copies be recorded, should both be recorded as expenditure (on new goods) on the basis that originals are distinct from copies, or should originals 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?" and "How should the transactions in copies be recorded?"

10. *Databases*

The SNA currently recommends that expenditure on large databases that are expected to produce a flow of services for a year or more should be capitalized. Should this be all databases? And if not, which should be capitalized? Canberra II has come to the view that all databases that meet the criterion of an asset should be capitalized.

11. *Definition of economic assets – should we add a criterion of 'reliability of measurement'?*

The SNA currently gives two criteria for an asset - an entity functioning as a store of value: over which ownership rights are enforce by institutional units; and from which economic benefits may be derived. Should there be a third criterion – reliability of measurement – to bring it more into line with business accounting standards?

12. *Mineral exploration*

Canberra II has come to the view that there should be no change to the intent of the SNA, but thinks there is a need to clarify the division between mineral exploration knowledge assets and sub-soil assets.

13. *Government owned assets – cost of capital services*

The SNA currently recommends that the cost of services provided by government owned assets is equal to their depreciation (i.e. consumption of fixed capital) over a period. Should this be changed to include a return to capital as well, and, if so, should this apply to all government owned assets or just some of them, such as office equipment?

14. *Capital input into production account*

Canberra II has come to the view that the presentation of the production account should be changed to allow the contribution of capital services, which is currently included in GOS and GMI.

15. *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. 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 this separation be made? One option is 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.

16. *Macro economic aggregates in the system*

The SNA encompasses measures of domestic production, income and expenditure and explains how the value of each of these can be brought into equality. For different analytical purposes, though, not all adjustments necessary to bring this equality about may be equally useful. One instance is the inclusion (or exclusion) of the consumption of fixed capital in order to have a measure of income which aligns better with economic concepts. Another is the way in which market price expenditure includes both the value of taxes and the expenditure these taxes finance. More extensive discussion of the alternative macro-aggregates available within the system is required together with an elaboration on the preferred aggregate for different sorts of applications.

17. *Cultivated assets*

During the System of Economic and Environmental Accounts discussions, it was agreed that the present definition of cultivated assets is ambiguous. There was agreement that a satisfactorily tighter definition for cultivated assets was “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.

18. *Treatment of non-performing loans*

The treatment of non-performing loans is a topic on which the Thai authorities had asked the ISWGNA for clarification as to what extent unpaid interest should be accrued (considering that the financial intermediation services indirectly measured on such interest may affect the GDP). The purpose of the review is to determine what criteria should be applied to the writing-off of non-performing loans and to make sure that they are consistent with the other major macroeconomic statistical systems (balance of payments, government finance, and money and banking statistics). The SNA currently has a black and white treatment of non-performing loans. Either the liabilities (and assets) exist or they are written off, should there be intermediate stages? Should unpaid interest on non-performing loans stop accruing?

19. *Treatment of interest under conditions of high inflation*

Peter Hill and Andre Vanoli have written to the ISWGNA with regard to the treatment of nominal holding gains and interest on financial assets under conditions of high inflation, as described in the 1993 SNA Chapter XIX, Annex B and subsequently in the OECD publication "A Manual on Inflation Accounting" written by Peter Hill. The latter takes a position different from that taken in Annex B in the 1993 SNA. Andre Vanoli has written a paper for discussion at the 1998 IARIW conference which raised issues regarding the inflation accounting treatment. Peter Hill has responded with a paper also submitted to the 1998 IARIW conference, essentially giving counter-arguments and in turn raising issues regarding Annex B. The EDG on this issue did not arrive at a distinct conclusion. This issue will be put forward to the AEG.

20. *Leases and licenses*

This issue has been discussed at two meetings of Canberra II, and concerns the treatment of leases and licenses relating to different types of asset. The questions are should they be treated as assets and, if so, how and under what conditions?

21. *Borderline between rent/rental and sale*

Following the discussion on mobile phones, the ISWGNA established a set of criteria to determine whether a transaction relating to mobile phone licenses should be considered a sale of an asset or rent on a non-produced asset. The ISWGNA explicitly requested that Canberra II fully investigate the consequence of the introduction of this set of criteria in the case of other assets. In addition, work should be conducted to elaborate a broader set of criteria to aid decision making between the treatment of payments for leases or licenses as rent or as the sale of an asset. The same issues arise in the case of leases of fixed assets.

22. *Classification and terminology*

Some members of Canberra II feel that the current classification of assets and terminology needs revising. This issue will be affected by the outcome of considerations of other issues, such as leases and licenses, and so it will be one of the last ones to be dealt with by the AEG.

23. *Other classifications*

It is likely that there will be some classification issues raised, such as the industry classification.

24. *BOOT schemes*

Buy-own-operate-transfer schemes typically take the form of a private sector enterprise and government reaching an agreement whereby the enterprise undertakes the building of a piece of infrastructure, such as a road, bridge, tunnel, airport, etc., then operates it, getting at least part of the revenue, and after a pre-determined period hands over ownership to the government. How should such arrangements be recorded in the national accounts?

25. *Purchased goodwill and other non-produced assets*

The SNA currently only recognizes purchased goodwill. Should there be a wider view of goodwill (internally generated goodwill). Should it be derived residually using the values of assets and liabilities, including stock market valuation of businesses? At present there is also an inconsistent treatment of purchased goodwill for incorporated and unincorporated business that needs to be addressed. Should the balance sheet recognize assets such as brand names, trademarks, franchises, etc.?

26. *Asset boundary for non-produced intangible assets*

Should instruments involving the securitization of future receipts of government be regarded as intangible non-produced assets?

27. *Amortization of intangible non-produced assets*

Paragraphs 14 to 16 of the final report of the ISWGNA on mobile phone licenses includes a brief discussion on the issue of the amortization of such intangible non-produced assets. Canberra II was asked if it would care to look at this matter further.

28. *Research and development*

The SNA currently does not recognize the output of R&D as capital formation. There is a widespread view that if the practical difficulties can be satisfactorily overcome then the SNA should be amended to treat R&D expenditure in a similar way to mineral exploration.

29. *Obsolescence/depreciation*

This is one of the issues left over from Canberra I. It concerns the appropriate way of defining and measuring 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 definition, 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, whether they realize it or not. Should time series depreciation continue to be the one defined in the SNA and, if so, how should it be applied? The issue seems to boil down to whether depreciation should include the price effect of foreseen obsolescence and, if so, how should it be measured?

30. *Water*

The issue is that water has in the past usually been regarded as a free resource, but the matter of charging for it is much discussed now. Should it therefore be treated in a similar way to land or mineral resources as giving rise to (resource) rent? It is complicated by the fact that there is a large distribution element in many cases and there is a decision to be made about whether the production is only getting water from A to B or whether one is only paying for this and the water itself.

31. *Consumer subsidies*

This topic was extensively addressed during the 1993 revision of the SNA but consensus was not quite achieved. It remained as a subject on the research agenda. Since the revision, ESA has "solved" the problem by specifying a list of government payments which, by convention, are to be treated as individual household consumption as a means of effecting the desired treatment of these payments. This treatment is not standard across even all OECD countries. Alternative resolutions have been put forward which would also bring the treatment of certain taxes and subsidies applying to consumer products into line with other tax classifications used in economic analyses, for example the concept of consumer taxes as regularly used in OECD reports. The desirability of restoring cross-country comparability suggests a review of the subject with the intent of either adopting the ESA convention into the SNA or deriving a more theoretically satisfactory solution which would also meet the EU needs. Both Anne Harrison and Jacques Bournay have written extensively on this subject.

32. *Government transactions with public corporations*

The income of general government from its investment in public corporations is recorded through dividends except for non resident public corporations. The timing of dividends does not necessarily correspond to the occurrence of profit in public corporations. Conversely, this entails that the deficit of public corporations does not show in government accounts when they occur. The accumulation of such losses is financed through *ad-hoc* capital injections. Dividend and capital injection, though recorded respectively as revenue and expense, are net worth neutral and as such do not meet the revenue/expense criteria. Further, as dividends and capital injections do not correspond to the timing of the underlying activity, they provide an inexact measure of government activities, and may lead to a certain level of arbitrariness in the time of recording. Should the direct investment treatment of accruing earnings be extended to public corporations? What ownership thresholds would be most appropriate?

The current treatment of income in the form of dividends makes it difficult to classify various transactions between general government and public corporations. Public corporations frequently pay lump sums to government, exceeding their operating profits for the year in question (sometimes referred to as superdividends). Conversely, they can receive capital injections in cash or in kind (including via debt assumption/cancellation) with no expectation of future profits. In the absence of full accrual of profits, what should be the criteria for classifying these transactions as financial or non-financial? While dividends may be viewed as revenues if they represent past operating profits, the timing of recording such income is an issue; this is exacerbated when dividends also include capital gains/losses. As for capital



injections, they should be expensed to the extent that they represent past or future losses, but as financial investment otherwise. Should the dividend/capital injections treatment of corporations be extended to quasi corporations? Should dividends be conventionally limited to the income of the period? Should funding conventionally be expensed even when a claim is received?

33. *Privatization/restructuring agencies and SPVs*

The government gives up control on corporations, financial or non-financial, in different ways:

- Direct privatisation: the Ministry of Finance disposes of its stake in a public corporation directly on the market
- Indirect privatisation: an entity (public holding, public agency), managing government shares and other equity, sells the shares and gives all or part of the proceeds to the government.

Other arrangements may be more complicated: the intermediate entity may securitise the shares, and make a prepayment to the government.

Should the treatment of privatization in the rev SNA be clarified?

Government creates specialized agencies that apparently meet the institutional unit criteria, in order to manage the portfolio of financial assets, government real estates, impaired assets purchased in support of distressed banks (creation of bad banks), or in the context of securitization (Special Purpose Vehicle, which are borrowing entities). The generic issue is whether those entities are institutional units, their sectorisation and their activities. Are they financial intermediaries or are they government? Should the financial intermediation / government delineation be clarified? How to apply the market non-market criteria for bad banks? Should the application of ancillary units treatment be extended?

34. *Tax revenue*

Under this heading there are three issues, all for clarification of the SNA (and convergence with IPSAS):

Issue 1: clarify the definition of taxes in the SNA

Current treatment: the SNA definition of tax is a compulsory, unrequited payment to government. The terms “nothing in return” are used. This definition is broadly consistent with GFSM 2001 and with IFAC-PSC. However, clarification may be needed on borderline cases.

Possible clarification: There is no need of major change in the SNA Should the wording “nothing in return” be modified alongside the idea that “nothing is obtained *directly in exchange*”?

Issue 2: Accrual recording of taxes: clarify the time of recording and the amount to be recorded

Current treatment : *Time of recording*: all three guidelines (SNA, GFSM, ESA) agree on the general principle “when the taxable event occurs”. However, they also all agree in giving some flexibility for income tax. This flexibility may be interpreted differently. *Amount to be recorded*: all converge on the fact that the amounts are those due but excluding tax not expected to be collected. The exact passage between amounts due and expected to be collected differs between the systems (see IPSAS guidelines on the tax gap issue).

Possible solutions: There is no need of major change in the SNA. Should the recommendation to record the tax when the taxable event occurs be reinforced, leaving however still room for flexibility? Should the way amounts not expected to be collected be harmonized? There are three options proposed by the new ESA (assessed amounts adjusted by a coefficient, time adjusted cash, capital transfer). Should they be limited to the first two?

Issue 3: Tax credits: there are no guidelines on tax credits in the SNA. Guidelines would be useful

Other guidelines: GFSM and OECD revenue statistics converge on the recommendation that the tax credit is to be deduced from the tax value, but that any amount exceeding the tax liability and paid by general government should be classified as expenditure. The IFAC-PSC tries to distinguish more “tax expenditures” and “expenses paid through the tax system” which should be expensed.

Possible solution: Should the principle stated by GFSM and OECD Revenue statistics be adopted in the SNA? Should this principle be augmented by a definition of what is a tax credit? Does the recording of personal tax credits raise specific questions, compared to corporate tax credits?

### 35 *Public/Private Sector Delineation*

The definition of the public sector and the rules for identifying and classifying units to the public sector and its sub-sectors (general government sector and public corporations) are essential to the compilation of government finance statistics. Establishing which related governmental entities are to be included in the public sector is problematical. This requires determining who controls each entity. Once public sector entities have been identified it is necessary to classify them as either engaging in market or non-market production.

In addition, there is a range of units for which there is little or no guidance in the *1993 SNA*, for example, special purpose vehicles, joint ventures, and corporations jointly controlled by several government units or public corporations. Consideration, clarification, and elaboration of the definitions of the public sector, inclusive of control, and economically significant prices and more specific guidance on classification of units would be useful. Should there be

more convergence (which seems feasible) in the definition of control between the statistical guidelines and the International Public Sector Accounting Standards? Should the SNA provide clarification and elaboration of the definition of economically significant prices? Should the SNA provide more specific guidance on the classification of units? (see issues 4.2 on privatization)

36. *Contingent assets and guarantees*

Guarantees provided by governments may sometimes have a substantial market value (that is if they are likely to be called). It is a concern that government may carry out substantial subsidizing schemes that would remain unaccounted for until settlement. To the extent that guarantees are likely to be called, one issue is the time of recording. Should they be accounted for (expensed) at the time the guarantees are provided (in the form perhaps of an insurance service or of a derivative) or only when called. It should be noted that guarantees are one form of contingent assets and that contingent assets are not recognized in the balance sheet. Should guarantees be expensed before time of call? Should it be at time of grant or spread over the lifetime of the guarantee? Should the treatment follow a financial derivative treatment or come closer to insurance?

## SECTION C of ANNEX I

### Brief description of EDGs (except for the EDG of the TFHPSA)

**1. Treatment of share (stock) options:** <http://www1.oecd.org/std/shares.htm>.

Employee stock options are an increasingly common tool used by companies to motivate their employees. Given that the 1993 SNA does not provide guideline to 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 the 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.

**2. Treatment of non-performing loans:**

<http://www.imf.org/external/np/sta/npl/eng/discuss/index.htm>

The treatment of non-performing loans is a topic on which the Thai authorities had asked the ISWGNA for clarification as to what extent unpaid interest should be accrued (considering that the financial intermediation services indirectly measured on such interest may affect the GDP). The purpose of the EDG is to determine what criteria should be applied to the writing-off of non-performing loans and to make sure that they are consistent with the other major macroeconomic statistical systems (balance of payments, government finance, and money and banking statistics). The conclusion of the group will be documented in a report that will be circulated for consideration by bodies such as the ISWGNA and the [IMF Balance of Payments Statistics Committee](#).

**3. Treatment of nominal holding gains and interest on financial assets (under high inflation):** [http://www.worldbank.org/data/working/iswgna\\_background.html](http://www.worldbank.org/data/working/iswgna_background.html).

Peter Hill and Andre Vanoli have written to the ISWGNA, with regard to the treatment of nominal holding gains and interest on financial assets under conditions of high inflation, as described in the 1993 SNA Chapter XIX, Annex B and subsequently in the OECD publication "A Manual on Inflation Accounting" written by Peter Hill along a different line from that taken in Annex B in the 1993 SNA. Andre Vanoli has written a paper for discussion at the 1998 IARIW conference which raised issues regarding the inflation accounting treatment. Peter Hill has responded with a paper also submitted to the 1998 IARIW conference, essentially giving counter-arguments and in turn raising issues regarding Annex B. The EDG on this issue did not arrive at a distinct conclusion. This issue will be put forward to the Advisory Expert Group on National Accounts.

**4. Cost of transferring ownership of assets:** <http://www1.oecd.org/std/transfsna.htm>

This EDG is now closed. The conclusion of the moderator (Peter van de Ven, Statistics Netherlands) is that there is no case for changing the 1993 SNA treatment of the costs incurred in transferring ownership of assets. The relevant part of his report of 10 March 2000 to the ISWGNA reads "... it is recommended to leave the 1993 SNA unchanged, as there are convincing arguments for as well as against the recommendations of the present international

guidelines". The ISWGNA discussed this issue at its meeting in April 2001 and agrees with this conclusion and so has decided to close the EDG.

**5. Accrual accounting of interest:** <http://www.imf.org/external/np/sta/na/interest/>

This discussion group on the concept and measurement of interest has been instituted pursuant to a decision of the ISWGNA, which met at a technical level in April 1999 in Washington, D.C. The main question raised is whether interest is measured from the point of view of the debtors or the creditors. The ISWGNA supported the conclusion of the moderator of this EDG on this subject that the SNA accrues interest on the basis of the debtor approach. The ISWGNA's conclusion was approved by the Statistical Commission in March 2003.

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

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

This EDG has 3 subgroups: (1) conceptual issues mainly linked to intangible assets; (2) measurement issues related to research and development 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. Chair: Peter Harper from Australia. Contact [marie.viriat@oecd.org](mailto:marie.viriat@oecd.org) for registration and password.

**7. EDG on financial services in the national accounts:**

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

This EDG is devoted to discussions on financial services in the national accounts. The business of financial corporations has undergone a structural transformation towards a rising 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 task force will consider whether and how the production boundary can be adapted to this rising activity, and how this could influence income. The first meeting of the task force is in June 2002. A first draft of the study was discussed during the OECD National Accounts Expert Meeting of 8-11 October 2002, in Paris. The final report is expected in late 2003.

Chair: Switzerland, Moderator: [paul.schreyer@oecd.org](mailto:paul.schreyer@oecd.org)

**8. 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. Studies have shown that statistical offices have varied considerably in the practical measurement of GFCF in software, with a significant impact on GDP. The objective of this joint OECD/Eurostat task force is to produce a set of recommendations that will 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 8-11 October 2002. The ISWGNA supported the recommendations of the task force. The EDG on software is closed. Chair: USA, Moderator: [francois.lequiller@oecd.org](mailto:francois.lequiller@oecd.org).

**9. EDG on measurement of non-life insurance services:**

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

This EDG is devoted to discussions on 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 11 September terrorist attack, is a recent example. It had impacts on GDP and balance of payments (reinsurance). The objective of the task force 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. The first meeting of the task force was in June 2002. A first draft of the study was discussed during the OECD National Accounts Expert Meeting of 8-11 October 2002, in Paris. The final report is expected in late 2003.

Chair: France. Moderator: [francois.lequiller@oecd.org](mailto:francois.lequiller@oecd.org)

**10. EDG on the treatment of pension schemes:**

<http://www.imf.org/external/np/sta/ueps/index.htm>

In the 1993 SNA, promises to pay future pension benefits are not recognized as liabilities of social security schemes and unfounded employer schemes. The EDG will investigate the analytical relevance of recording these liabilities in the national accounts and, if appropriate, will formulate recommendations regarding their valuation and measurement. The EDG will also formulate proposals to reconcile the recommendations of the 1993 SNA and the IMF Government Finance Manual regarding the treatment of (government) unfounded employer pension schemes.

Moderator: IMF.

ANNEX II

The following Table is a working draft that has extracted information from the Matrix and presented it, in summarised form, in a manner that focuses on the convergence work that is being encouraged to be undertaken by various Groups, whether individually or in combination.

- Column 1 identifies the relevant Group (except in relation to the last item in the column, which refers to the group of issues for which reconciliation is likely to be required)
- Column 2 identifies each issue that the Matrix identifies as being pertinent to that Group
- Column 3 summarises the type of work that the Group is currently undertaking or is encouraged to undertake in order to facilitate GAAP/GFSM 2001/ESA95/SNA harmonization
- Column 4 indicates the other Groups that may also be undertaking related work. These Groups are encouraged to work together to help ensure that a common solution is found to each of the harmonization issues.

The Table is designed to help each Group identify, within the scope of the Matrix, its role in the harmonization process. It will also facilitate monitoring of the progress being made on harmonization. Monitoring progress will help identify the point in time at which it may be appropriate to consider the form and content of a reconciliation statement reconciling GAAP and GFS numbers.

	<b>Issue</b>	<b>Group's work</b>	<b>Related Groups</b>
<b>PSC</b>	1.1 The scope of the reporting entity and sector reporting (particularly GGS reporting) and accounting for controlled entities	See comments column in the Matrix	
	2.2 Calculation of net worth/measurement of equity and contributions from owners for commercial government operations	Distinction between contribution from owners and revenue	WGII
	3.1 Costs associated with R&D and intangible assets	Consider IAS 38	OECD Canberra II Group and IASB
	3.1A Mineral exploration	Consider issues	OECD Canberra II Group and IASB
	3.3 Borrowing costs	Consider removing option, and prescribing expense	
	3.6 Public private partnerships including BOOT schemes	Consider issues	IASB, OECD Canberra II Group, WGII
	4.1 Constructive obligations	Progress ITC on social policy obligations	IMF
	4.2 Tax effect accounting	Consider IAS 12	WGII
	4.3 Employee stock options	Consider IASB	IASB, AEG, EDG
	5 Measurement of assets and liabilities	Consider removing historical cost option from IPSAS 17	OECD Canberra II Group, IVSC
	5.3 Impaired non-financial assets	Progress ED 23	
	5.4(c) Transaction costs relating to equity instruments	Consider issues	
	5.4(d)&(e) Transaction costs relating to future disposal of assets	Consider IAS 39, IAS 41 and IASB ED 4	
	5.6 Low interest and interest free loans	Consider NXR ITC	
	5.7 Inventory	Ask IASB to reconsider inventory measurement	
5.9 Measurement of investment in unquoted	Consider IAS 39 (whether directly		

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

	<b>Issue</b>	<b>Group's work</b>	<b>Related Groups</b>
	shares (less than control and significant influence)	or as hierarchy)	
	5.11 Biological assets (that is, living animals and plants)	Consider IAS 41	
	5.13 Extractive industries (except subsoil assets)	Monitor IASB	OECD Canberra II Group
	5.14 Subsoil assets	Monitor IASB	OECD Canberra II Group
	6.1 Recognition and derecognition of financial instruments	Consider IAS 39	WGII and IMF
	6.3 Currency on issue/seigniorage	Consider issues	IMF
	7.1(b) Prior period adjustment/back casting – taxes	Progress NXR ITC	WGII
	7.1(c)(ii) Prior period adjustments/back casting – correction of errors	Consider IAS 8	
	8.1(a) Format and presentation (including classification) of the cash flow statement	Consider presentation of <i>GFSM</i> notion of “cash surplus/deficit” in the Statement of Cash Flows	IMF
	8.1(c) Format and presentation (including classification) of the statement of financial performance	Consider a comprehensive statement of financial performance that splits the comprehensive result into two components that align as far as possible with the <i>GFSM 2001</i> transactions/other economic flows approach. In addressing how all items should be classified between transactions and other economic flows, PSC has not yet considered how certain items should be accounted for (for example, financial instruments and employee benefits). These will be considered in due course in the context of IASB standards, including IAS 39, IAS 19, IAS 41, IAS 38. Consider encouraging adoption of COFOG for presentation purposes.	IMF In relation to the issues that have not yet been addressed by PSC (other than the transactions/other economic flows split), it is relevant to note that, as indicated throughout this table, other Groups are considering various aspects of the issues.
	9.1 Terminology and definitions	Consider differences between <i>GFSM 2001</i> and IPSASs and attempt to resolve	ISWGNA, IMF, WGII and OECD Canberra II Group
	10.1 Uncollectible taxes – the tax gap	Progress the NXR ITC	
	5.1 in broad category 10 Non cash flow generating assets	Work with IMF to align guidance on the valuation of non cash generating assets including heritage assets	IMF
<b>AEG/ISWGNA</b>	1.1 The scope of the reporting entity and sector reporting (particularly GGS reporting) and accounting for controlled entities	Tests of control/boundary of the public sector and GGS	PSC and IASB
	3.2 Defence weapons	SNA to be amended. Also amend the paper re distinguishing inventory from P,P&E	
	4.3 Employee stock options	EDG Topic 1 AEG Topic 2	IASB (IFRS 2), PSC
	5.5 Nonperforming loans	EDG Topic 5	IASB IAS 39
	5.6 Low interest and interest free loans	Consider partitioning loans and comment on PSC NXR ITC	PSC
	6.3 Currency on issue/seigniorage	Develop a single definition	
	9.1 Terminology and definitions: (a) assets; (b) current value; (g) materiality; (i) net assets/net worth	Consider IPSASs	PSC, and OECD Canberra II Group for (b)
<b>OECD Canberra II Group</b>	3.1 Costs associated with R&D and intangible assets	Topics 10, 25, 26 and 28	IASB re IAS 38
	3.1A Mineral exploration	Topic 12	PSC and IASB
	3.6 Public private partnerships including BOOT	Topic 24	IASB, PSC, WGII



**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

	<b>Issue</b>	<b>Group's work</b>	<b>Related Groups</b>
	schemes		
	4.1A Decommissioning/ restoration costs	Notion of "negative asset"	
	5 Measurement of assets and liabilities	Measurement of non-financial assets	PSC and IVSC
	5.13 Extractive industries (except subsoil assets)	Topic 12	IASB and PSC
	5.14 Subsoil assets	Topic 12	IASB and PSC
	9.1 Terminology and definitions: (b) current value	Topic 11	ISWGNA
	9.1 Terminology and definitions: (j) asset recognition criteria	Topic 11	PSC
	5.15 in broad category 10 Depreciation vs. consumption of fixed capital	Topic 29 – clarify that alternatives to estimating capital consumption using the perpetual inventory method are acceptable. In particular that GAAP depreciation can be used when it is based on a current valuation basis.	
<b>TFHPSA WGII</b>	1.1 The scope of the reporting entity and sector reporting (particularly GGS reporting) and accounting for controlled entities	Topics 1 and 4	
	2.1 Outside equity interest	Topic 1	
	2.3(a) Distributions payable to owners as holders of equity instruments	Topic 1	
	3.6 Public private partnerships including BOOT schemes	Topic 4	IASB, PSC, OECD Canberra II Group
	4.1 Constructive obligations	Topic 5	
	4.2 Tax effect accounting	Topic 3	PSC and IASB
	6.1 Recognition and derecognition of financial instruments	Topic 2	PSC and IMF
	7.1(b) Prior period adjustment/back casting – taxes	Topic 3	PSC NXR ITC
	9.1 terminology and definitions: (d) public sector for-profit entities; (e) negative tax revenue; (f) tax gap	(d) Topic 4; (e)&(f) Topic 3 Work with PSC to align	PSC
	10.1 Uncollectible taxes – the tax gap	Topic 3	
	2.4 in category 10 Privatizations	Topic 2	
<b>ESA95</b>	1.1 The scope of the reporting entity and sector reporting (particularly GGS reporting) and accounting for controlled entities	Boundary of GGS	IMF
<b>IMF</b>	1.1 The scope of the reporting entity and sector reporting (particularly GGS reporting) and accounting for controlled entities	Boundary of GGS	ESA95
	2.2 Calculation of net worth/measurement of equity and contributions from owners for commercial government operations	Distinction between contribution from owners and revenue	PSC
	4.1 Constructive obligations	Comment on PSC ITC on social policy obligations	PSC
	5.6 Low interest and interest free loans	Consider partitioning loans and comment on PSC NXR ITC	PSC
	6.1 Recognition and derecognition of financial instruments	Consider IAS 39 derecognition criteria Clarify requirements	PSC and WGII
	6.3 Currency on issue/seigniorage	Consider issues	PSC
	8.1(a) Format and presentation (including classification) of the cash flow statement	Consider not allowing disclosure of notional cash flows relating to finance leases effectively on the face of the Statement of Cash Flows	PSC
	8.1(c) Format and presentation (including classification) of the financial performance	Depending on outcome of PSC deliberations, consider whether the Statement of Government Operations and the Statement of Other Economic Flows should be combined into one Statement, and	PSC

**COMPARISON OF IPSASs, GFSM 2001 AND ESA95/EMGDD/SNA (as at 5 March 2004)**

	<b>Issue</b>	<b>Group's work</b>	<b>Related Groups</b>
		consider whether the current definitions of "transactions" and "other economic flows" are appropriate	
	9.1 Terminology and definitions: (h) class/category of assets	Work with PSC to align	PSC
	9.1 Terminology and definitions: (k) financial assets	Work with PSC to align	PSC
	3.5 in broad category 10 "Subscriptions" to international organizations	Clarify that, depending on their nature, "subscriptions" to international nonmonetary organizations could give rise to expenses	
	5.1 in broad category 10 Non cash flow generating assets	Work with PSC to align guidance on the valuation of non cash generating assets including heritage assets	PSC
<b>Reconciliation</b>	2.1 Outside equity interest		
	2.2 Calculation of net worth/measurement of equity and contributions from owners for commercial government operations		
	2.3(b) Distributions receivable from controlled entities		
	4.1A Decommissioning/ restoration costs		
	5.8 Investments in associates		
	7.1(c) 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	