

**TASK FORCE ON HARMONIZATION OF PUBLIC SECTOR ACCOUNTING
Meeting in Paris, France
March 8–10, 2006**

Summary of the main issues and conclusions

This final meeting of the Task Force on Harmonization of Public Sector Accounting (TFHPSA), hosted by the OECD (Paris, March 8–10, 2006), was attended by approximately 30 persons whose representation was as follows:

Countries: Australia, Austria, Brazil, Canada, Denmark, France, Hungary, Israel, Germany, Japan, Korea, New Zealand, Norway, Switzerland, United Kingdom, and the United States

International organizations: European Central Bank, Eurostat, IMF, IPSASB, OECD, and World Bank.

Anne Harrison, Editor of SNA 1993 rev. 1

A. Opening Remarks by Lucie Laliberté

- After welcoming the participants to this final meeting of the TFHPSA, it was indicated that a draft final report on the activities of the task force had been prepared by Lucie Laliberté, Paul Sutcliffe, and Jean-Pierre Dupuis, respectively chairs of the TFHPSA, Working Group I, and Working Group II.
- An overview of the main achievements of the Task Force was presented: (A) tracking and documenting differences between the accounting and statistical systems; (B) promoting the development of an accounting standard for disclosure of financial information about the general government sector (as defined in statistical reporting models) as part of the general purpose financial statements; supporting the IPSASB's "improvements project" which proposes amendments of IPSASs to better converge with standards issued by the International Accounting Standards Board, particularly in respect of retrospective adjustments for changes in accounting policies and prior period errors; and encouraging the IPSASB to continue to develop its financial reporting model—in particular its statement of financial performance to better reflect and separate the impact of transactions and other events on financial performance, (C) delineating the private/public/government sectors based on a definition of control in statistics similar to that in accounting standards; (D) clarifying the notion of restructuring agency and special purpose entity for statistical purposes; (E) clarifying debt and debt restructuring (F); further clarifying how taxes and tax credits are recognized; (G) recognizing certain types of guarantees in statistical standards; (H) clarifying the statistical treatment of transactions of government with its public corporations in statistics; and (I) promoting a public sector reporting unit in statistics

that is a near-equivalent of the whole of government reporting entity in accounting standards, through the introduction of a chapter on general government and public sector in the updated SNA. (Following review at this meeting, the proposed chapter will be forwarded to the ISWGNA by the end of March 2006.)

Action 1: Participants to provide comments to Lucie Laliberté, Paul Sutcliffe and Jean-Pierre Dupuis on the draft *Final Report of the TFHPSA* before March 31, 2006. *DONE* (see amended report on agenda)

B. Minutes of the October 2005 Meeting of the TFHPSA (Washington, D.C.)

- The minutes were accepted.

C. Working Group I

An update on the IPSASB was provided by Paul Sutcliffe

- It was confirmed that the 2006 membership of the IPSAS Board comprises 15 members nominated by the accounting professions in different countries, three public members (two from academia and one from the accounting profession), and observers from international and regional organizations: ADB, EU, IASB, IMF, INTOSAI, OECD, UN, UNDP, and World Bank.
- The work program priorities of the IPSAS Board consist of public sector specific issues; convergence with International Financial Reporting Standards (IFRS) where appropriate for the public sector; and convergence with statistical financial reporting bases where appropriate.
- The next IPSASB meeting is on March 22–24, 2006, in Tokyo, Japan.
- IPSASB projects that are of special interest to the TFHPSA were highlighted, including:
- ED 24 “Cash Basis External Assistance” that needs field testing (and IPSASB would welcome further input); ED 26 *Improvements to International Public Sector Accounting Standards* Exposure Draft that proposes updates to 11 IPSASSs to converge with the equivalent IFRSs/IAS as of December 2003, where appropriate; *Non Exchange Revenue ED; Disclosure on External Assistance*, ED 27, *Presentation of budget information in financial statements*; and EDs on *Social Policy Obligations* and *Employee Benefits* that are under development.
- The discussion of the meeting focused on ED 28 on *Disclosure of information about the General Government Sector*, with the general government sector defined to

include all activities of the general government as defined in statistical reporting bases and where all the IPSASs will apply except for the IPSAS on consolidation.

- Members thanked Jeff Golland who had coordinated comments from the TFHPSA and forwarded to the IPSASB a response from the TFHPSA.
- At this meeting, the TFHPSA confirmed its support for the broad approach and requirements of the ED and noted that the issuance of the final IPSAS was a useful and important development in financial reporting. Members also proposed that explanation be added in the final IPSAS (or its basis for conclusions) to explain that government business enterprises (GBE's) as defined in IPSASs may not be the same as public corporations as defined in statistical bases; that the basis for conclusion explain that the IPSAS did not define the GGS because the definition in statistical bases were still evolving and readers should refer to the relevant statistical definition for their jurisdiction which currently may be the *SNA 1993*, *ESA 1995*, or *GFSM 2001*; elaborate on the consequences of a change in investment in other sector for the GGS financial statements; confirm that the difference between a segment and the GGS sector includes that a segment may reflect information from the public corporations sector.
- Some members expressed different views on whether the illustrative financial statements should be revised to better reflect the classification basis adopted in a number of countries. It was agreed that the IPSASB be requested to consider some revisions to its illustrative GGS financial statements in ED 28. It was noted that any proposed revisions would need to be consistent with the current suite of IPSAS financial statements.
- It was noted that all agenda papers for IPSASB meetings were made publicly available on the IPSASB website before each meeting, including a summary and analysis of all 32 responses received to ED 28, which would be considered at the next meeting in Tokyo.

Action 2: Tulsi Ram agreed to coordinate the views of TFHPSA members on revisions to the classifications reflected in ED 28 illustrative financial statements to be proposed to the IPSAS Board. Tulsi will contact TFHPSA members with a request for their input. **DONE (see report on agenda)**

D. Government issued permits, presentations by Jean-Pierre Dupuis and Sagé De Clerck

- The presentations and discussion of the treatment of taxi licenses at the TFHPSA were in response to the ISWGNA request that the TFHPSA reviewed this treatment.
- The discussions were based on two documents that were prepared by the OECD and the IMF, respectively, for the March 2006 TFHPSA meeting. The first document was in the form of questions that addressed directly the issue of taxi permits, whereas the second document set the background to facilitate the understanding of the issues involved through a decision tree.

Discussion overview as reviewed by the TFHPSA during the March 2006 meeting:

The discussion was limited to restricted permits issued to perform specific activities, such as those characterized by *taxi licenses*. In this regard, two questions were addressed:

1. Was the permit issued for the use of an asset owned by the issuer (government in this case)?

The meeting confirmed that for government the most likely sort of assets which could be subject to this sort of permits were produced assets and natural resources. For taxi licenses, the meeting agreed that there was no such asset. (*This would not preclude in other cases than the taxi license, that the issuance of permits or licenses giving access to produced assets and natural resources controlled by the government can, under certain conditions, be treated as an asset.*)

2. Does the permit holder have an asset?

Given the decision on question 1, most participants were in favor of treating the payment for permits of the taxi license type as tax. (Assuming this is not the case where a license is regarded as now, as a payment for service because the fee charged is in proportion to the work done by government in issuing the license). A number of participants said that the tax payment could subsequently give rise to the recognition of a nonfinancial asset by the holder based on or related to a restricted license but this would depend on transferability or other factors used in the recognition of an economic asset.

The question arose, though that if the license (whether restricted or unrestricted) was valid for more than one year, whether this be seen as payable over several periods thereby incurring a financial asset (pre-paid taxes for the permit holder) and a liability for the issuer (government). The meeting preferred to ascribe such a liability only if

the terms of the license were such that the government was liable (legally or by means of a constructive obligation) to make a refund to the permit holder if the permit was rescinded by government or surrendered by the holder.

Action 3: Jean-Pierre Dupuis and Sagé De Clerck to provide the two documents and the discussion overview to the ISWGNA via Anne Harrison. *DONE*

The remaining of the meeting discussed the draft Chapter on the government and public sector, prepared by Jean-Pierre Dupuis and John Pitzer. It was noted that the chapter would need to be further updated to reflect the results of the AEG meeting of January/February 2006, and the outcome of the discussions of the TFHPSA March 2006 meeting. The amended Chapter will be presented to the ISWGNA by the end of March 2006.

Action 4: Participants to provide their written comments on the Chapter to the authors with copy to chair and other TFHPSA members by March 16, 2006. *DONE (see amended chapter on agenda)*

E. Outline of the chapter:

- It was confirmed that the scope of the chapter was to encompass both the general government and public sector, as agreed by the AEG meeting of July 2005.
- It was agreed that the draft chapter was to be reorganized to cover first the delineation of both general government and public sector. Such organization would better reflect the work of the TFHPSA working group on the private/public/government sector delineation, and would be consistent with the January/February 2006 AEG meeting that recommended using a decision tree to determine sectors in the chapter.

F. Sectorization of government and public sector/delineation issues

- *Sequence* would consist in defining government units, and then general government and public sectors. Some of the issues raised regarding government units included the following:
- *Market activities of government*: to the extent that such activities are carried out through quasi-corporations, they would be reflected in public corporations. It was stressed that quasi-corporations would be treated as currently defined in the SNA, and that the presentation would avoid being too prescriptive as there are general government units that carry out some market activities (government units may have a net operating surplus).

- *Budgetary and extra-budgetary activities*: these terms are frequently used but cannot be exactly defined. Budgetary activities vary greatly across countries, with some countries' budgets covering the full public sector (e.g., Denmark) while others have a very narrow scope, that exclude extra-budgetary funds. Because of this variability in usage, the terms should not be used as a determining factor in delineating units.
- *Social security*: No change for the option to classify social security either as a sub-sector of each of the various levels of government or as a sub-sector at the same level as central, state and local government.. In the updated SNA, different terms will be used for instruments and units relating to e.g., social security funds.
- *Non Profit Institutions*: in the updated SNA, NPI will be identified as sub-sectors within general government and corporations so that all NPIs may be aggregated for analysis.
- *Levels of government* within general government sector: since the SNA focuses on general government, it was felt important to explain in the chapter the need for presenting the sub-sectors of general government and the public sector.
- *Consolidation*: a paragraph should be introduced to clarify the consolidation of accounts, including at the sub-sector levels.
- *Special Purpose Entities and Restructuring agencies*: text should be revised to indicate that financial corporations encompass more than intermediation activities. It was also noted that the text on defeasance should be amended to reflect the case for non-resident units.
- *Joint ventures*: the accountants distinguish joint ownership, joint unincorporated and joint venture entities. It was noted that the statistical treatment of joint ventures is under discussion by the ISWGNA.
- *Economically Significant Prices*: no change in the SNA treatment.
- *Control*: importance of using the words as carefully crafted by the Working Group on delineation issues. It was recalled that the concept of control in the SNA was not changed, but that the WG attempted to clarify the concept. At the same time, in order to avoid leaving the impression of being too prescriptive, the key factors of control will be maintained in the chapter with definitions provided elsewhere (the chapter to show a reprise of text to be provided elsewhere).

G. Taxes by Jean-Pierre Dupuis

- The wording used by the July 2005 AEG meeting on *uncollectible/uncollected* taxes was to be maintained.
- Tax *evasion* in parallel economy needed clarification.
- Need was reiterated to separate valuation of *amounts* from *timing* of recording and *classification* issues.

Action 5: Norway raised the issue of recording of taxes and rent on natural resources. The issue was to be referred to the ISWGNA as this topic has been extensively covered in the Canberra II Group.

H. Guarantees by Reymund Mink

- The results of the January/February 2006 AEG meeting were presented, including the recommendation that the asset for the guarantees be recorded in the sector that incurred the fee. A few raised objections as they felt the creditor was the beneficiary of the guarantees.
- There was a vigorous discussion concerning the treatment of major disasters, such as Hurricane Katrina, as standardized guarantees; particularly when a program that is designed to provide coverage for such disasters is grossly under funded because program fees are assessed at a below market price. Given that the AEG agreed that fees could be imputed when actual fees are insufficient to cover costs, it may be necessary to treat major disasters as one-off guarantees—even when risks can be measured.

Government accounts	Debit	Credit
Statistics	Impute fee transfers to the guaranteed sector	Provisions for technical reserves
Accountant	Expenses on guarantees(internal transaction)	Provisions

Action 6: Consult with the ISWGNA to what extent fees can be imputed. **DONE**
(Brooks Robinson drafted a note for the ISWGNA)

Action 7: Reimund Mink will coordinate the follow up work requested at the January/February 2006 AEG meeting. **DONE, with OECD taken some of the work.**

I. Pensions by François Lequiller

- The recommendations of the January/February 2006 AEG meeting were presented.

J. Earnings from equity investment by Jean-Pierre Dupuis

- The discussion focused on the “reinvested earnings” treatment. The rationale for such an approach should be better clarified, including why a 100 percent threshold might be adopted.
- It was noted that the text should be sufficiently explicit to clarify what the treatment involved. At the same time, it was recalled that the length and content of reinvested earnings in the chapter will be determined in the broader context of how short term research items are to be presented in the updated SNA.

K. Recording of Government Liabilities by Keith Dublin

- It was noted that the paper written by Richard Shepherd included inputs from the accounting community (notably Louise Breton) with regard to the notion of constructive obligations, provisions, contingencies, and the valuation of certain liabilities using actuarial principles rather than market prices.
- The bulk of the paper presented the classifications used in existing macroeconomic manuals (*SNA 1993*, *GFSM 2001*, and the *External Debt Guide*), together with suggestions for useful supplementary classifications.
- The meeting agreed that the paper was a useful summary of many aspects of government liabilities. It was noted that in statistics, the reference should be to liability only (*and not to financial liability*) and that liability includes financial derivative and equity (by convention). The classification of accrued interest should also be clarified.
- The paper will be used as input to update the chapter on the general government and public sectors. The Editor will also use the amended paper as input for delineating liabilities, provisions and contingent liabilities between the statistical and accounting systems in the *SNA 1993 Rev1*.
- A paragraph in the chapter should introduce liabilities and how they relate to debt. On the notion of debt, it was agreed that the general definition that would be introduced elsewhere in the *SNA 1993 Rev1* was to be referred to. It was also noted that how debt links to the balancing items should also be clarified, and that guarantees should

not be covered under debt. The reference to debt concessionality should reflect the recommendations of the January/February 2006 AEG meeting.

- Debt reorganization: improvements made in the draft chapter to the recommendations for recording debt assumption and debt cancellation were not questioned.

Action 8: Keith Dublin to amend the paper to reflect the various suggestions of the meeting. **DONE** (*see amended report on agenda*)

L. Index-Linked Securities by Lucie Laliberté

- The taskforce was asked permission to indicate that the taskforce is concerned about the outcome of the decision on the treatment of interest on index-linked securities, and that they (ISWGNA) should reconsider the merits of their decision.
- While various members of the taskforce had differences of opinion on the treatment of interest on such instruments, it was agreed not to discuss the issue because of the lack of sufficient background information on the topic. It was agreed that the issue be referred to the ISWGNA for review.

Action 9: Request the ISWGNA to review the treatment of interest on index-linked debt instruments. **DONE**

M. Public Finance Presentation by Jean-Pierre Dupuis

- The meeting agreed that the introduction to the chapter must clearly indicate the need for the presentation of general government and public sector accounts,
- At issue was how to present the sequencing of accounts in the Chapter. The main points raised by Statistics Canada to the TFHPSA were presented.
- There was a general agreement in the meeting that the linkages with a government finance type of presentation were useful in this chapter as a complement to the SNA sequence of accounts. The discussion highlighted however that the chapter was to remain neutral in terms of approach. It should be explained that this could be done using standard SNA items or, for example using *GFSM 2001* items. The explanation should be done in such a way that easy updating would be possible, for example, following a subsequent update to the *GFSM 2001*.
- After much discussion, it was agreed that the accounts should be defined *conceptually*, in relation to the consolidation of the SNA sequence of accounts (current, capital, financial), stressing that the new items of analytical interest were to be an integral part of this presentation. In this context—and for both the general

government sector and the public sector—these items comprise revenue and expense (*impact on net worth*), net operating balance, the net acquisition of non-financial assets, expenditure, the net saving, net lending/net borrowing, the financial flows and the balance sheet. Analytical balances such as the net operating balance and net lending/net borrowing of government would be presented with a clear link to the transactions in financial assets and liabilities.

- It was noted that a reference was to be made to the deficit/surplus concept but that it should be explained that the definition is context specific.
- Topics that also need to be covered in the chapter include functional classification, capital services, output, central bank, securitization, differences between purchase and subsidy. To the extent these topics are covered elsewhere in the main body of the SNA, they would come simply in the form of “reprise” in the chapter.
- It was agreed that the Annex to the chapter will show the detailed links between the SNA sequence of accounts and the other macroeconomic manuals, such as the updated *ESA 95*, the *GFSM 2001* and the *OECD Revenue Statistics*.

Action 10: Anne Harrison to provide the wording agreed by the AEG meetings on the measurement of output of non-market services in volume terms.

N. Closing and Way Forward

Members were asked for their views on whether public sector accounting work should be pursued and mechanisms that might be considered to facilitate such.

Paul Sutcliffe (Technical Director IPSASB):

- Convergence between accounting and statistical standards was an objective that should be pursued where appropriate and the establishment of a regular forum for exchange of views and update on activities was a useful mechanism to maintain the relationship with the IPSASB. A good timing for subsequent forums could be following the annual OECD Senior Budget Officials public sector accrual symposium in February or March of each year.
- In the interests of ongoing communication and convergence, it was important for the IPSASB Observer group included a person that would provide appropriate feedback to and carry the message of the overall statistical community, whether this was achieved through the IMF observer or the EU Observer was a matter that the statistical community should pursue.

- A co-operative task that could be considered by the IPSASB and a subsequent statistical forum is the update of the Research Report *International Public Sector Accounting Standards (IPSAS) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence* that was issued in June 2004, and could usefully be updated to reflect evolution in both accounting and statistical standards. This will help to strengthen the communication between the two systems.
- At its next meeting, the IPSAS Board will consider whether to action a project to develop an explicit conceptual framework and whether such development should occur as a collaborative project with national standard setters. If the IPSASB actions such a project the statistical community should consider how it might participate in and/or contribute to this exercise.

Anne Harrison, as Editor of the SNA update, indicated links between the SNA and the accountants had been particularly useful so far in this update and hoped they would continue. A revised text and updated glossary of entries become available later in the year, she would appreciate a review by accountants.

Francois Lequiller, OECD

- The TFHPSA played a critical role in reflecting the importance of government economic activities in a SNA context. He felt that this has been a very successful exercise.
- On behalf of the OECD, he thanked the IMF for its chairmanship, and all the participants, including the various international and regional organizations. He also extended his thanks to Eurostat, noting that this institution financed the recent work of Jean-Pierre Dupuis as co-author with John Pitzer (IMF financing) of the chapter on general government and public sector.
- He noted that the work of the TFHPSA in terms of the chapter will conclude with the finalization of the chapter by the end of March, to be then taken up by Anne Harrison as Editor of the SNA update.
- In terms of the longer term, he felt that a forum on general government could be supported at the international level.

Participants from national organizations

- Virtually all the participants felt that it would be useful to maintain an international forum on government issues. It would be useful for the forum to be not only for statisticians, but also accountants and users of data.

- It would be very important to maintain the communication between the accountants and statisticians, especially as the accountants will be developing Performance Reporting (considering changes to the concept of income to include measurement of transactions and remeasurements).
- Other topics include specific topics related to SNA (constructive obligations, provisions, contingent liabilities), GFS interpretation, implementation through data compilation and of functional classification and accounting plans.
- Participants indicated that in general they foresee a strong commitment from their respective organizations and that work should continue on subjects identified to remain on the research agenda of the SNA update.

Lucie Laliberté, Chair

- As described in the Draft Final Report, the TFHPSA met its two main objectives: promoting further harmonization with public accounting standards, and updating specific statistical issues for the general government public sector in the update of the 1993 *SNA* on specific issues.
- The consultation highlighted needs to further the work at the international level on government issues. A major area of further work is in relation to accounting standards where the exchange of views has been very fruitful for the two systems.
- The expression of these needs will be transmitted to the management of the various international and regional organizations involved in the TFHPSA, who will have to prioritize according to their respective resource constraints.
- The Chair thanked the OECD for hosting the meetings and acting as Secretariat to the TFHPSA. She also thanked the participants from national, regional and international organizations for their active cooperation throughout the mandate of the TFHPSA.
- The Chair closed the TFHPSA.