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PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
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Working Party of Senior Budget Officials

CATALOGUE OF ISSUES --
COMPARISONS OF IPSAS, GFSM2001 AND ESA95

THE 4thANNUAL OECD PUBLIC SECTOR ACRUALS SYMPOSIUM

OECD Headquarters, Paris
9-10 February 2004

The attached Matrix identifies a list of current differences between IPSAS, GFSM2001 and ESA95.

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WORKING DRAFT ONLY: MATRIX 1: COMPARISON OF IPSASS, GFSM 2001 AND ESA95

1. 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 (category 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. 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 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 recognised/presented (that is, the reporting periods to which items are attributed).
   8. Financial statements, with an emphasis on performance reporting (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. The emphasis on performance reporting relates 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 GFS will align and those items where it is not expected that GAAP and GFS will align without further work being done.

2. The convergence processes proposed in the Matrix take into account the fact that IPSASs 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 GFS treatment, then convergence is achieved.[1]

[1] For example, IPSAS 16 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).

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

9. Definitions and terminology; and
10. Certain items considered and found not to be a cause of a difference.

4. Category 9 can be expanded as needed, and will facilitate the identification of a process for ongoing longer term convergence of GFS 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 it may be appropriate to reclassify the issues to category 10 as an historical record.

5. 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 Matrix 2 being developed by Working Group 2 (which compares GFS and SNA) and related papers, and, for background information, reference is also made to relevant issues papers developed for the Australian project on GAAP/GFS Convergence.[2]

6. The identification of a "convergence process" for each difference noted in the Matrix has been tentatively proposed (in the last column). This is predicated on the expectation that neither framework would adopt the other framework in its entirety. However, it is relevant to note that full convergence could be achieved by IMF agreeing that GFS 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 GFS) 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 GFS.

7. The proposed tentative "convergence process" for each issue within each broad category is described as:

- Clarification by IMF of GFS;
- Clarification by PSC of IPSASs;
- IMF to amend GFS;
- PSC to amend IPSASs;
- The Inter-Secretariat Working Group on National Accounts (ISWGNA) to amend SNA;
- IASB to amend IASs/IFRSs;
- Retain the difference, possibly to be disclosed as a reconciling item;
- No further action required; or
- Further action required to identify the extent of any difference between GFS and IPSASs before a convergence process can be identified.

[2] The issues papers were prepared by the Australian Heads of Treasuries 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 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.

8. The focus of Matrix 1 is on the differences that currently exist between IPSASs[3] and GFS. 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 to the extent that the differences in the wording of the definitions do not currently cause a difference between the two frameworks. Category 9 "Definitions and terminology" of the Matrix will help facilitate this.

[3] 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.

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments

1: THE SCOPE OF THE ENTITY AND SECTOR REPORTING	1.1	(a) Reporting entity
		
		(b) Sector reporting (particularly GGS reporting)
		
		(c) Accounting for controlled entities
			(a) Reporting entity is an individual entity or a group of entities called an economic entity, e.g., whole of government. (An entity is not defined.) 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.
			
			Whole of government reporting is the reporting for the economic entity "whole of government" prepared on a full consolidation basis.
			
			A **segment** is a distinguishable activity or group of activities of an entity (see Issue 8.1 re aligning this with GFS functional classifications) for which it is appropriate to separately report financial information in a note to the general purpose financial statements.
			
			(b) IPSASs do not currently explicitly address **sector** reporting.
			
			(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 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)
				(a) A statistical unit is the **institutional unit**, 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.
				
				(b) The total economy of a country can be divided up into **sectors**, with each sector consisting of a number of institutional units that are **resident** in the economy. The 5 sectors are: general government sector, 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 and public nonfinancial and financial corporations. The general government sector and nonfinancial public corporations can be consolidated to get the nonfinancial public sector. (*GFSM* Chapter 2)
				
				(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)
						Convergence process:
						
						If IPSASs were to change, the following PSC action would be necessary:
						
						(a) & (c) Resolution of issue (a), and its consequence for issue (c), will require the PSC to consider a range of questions, including the following:
						• Is a GGS (as defined by GFS) an entity for which a general purpose financial statement should be prepared?
						• If a general purpose financial statement is prepared for a GGS, should it be exempted from consolidating all controlled (resident or non-resident) entities?
						• If it is exempted from full consolidation, how should "investments in controlled entities in other sectors" be measured (initially recognised amount, fair value, proportion of recognised net assets of the investee, some other basis)?
						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 GFS principles in relation to the other issues identified in this Matrix. The answer to this question will depend on the outcome of the other issues identified in broad categories 2 to 10.
						• How should other GFS sectors be treated?
						
						(b) & (c) Irrespective of whether a GGS (as defined by GFS) is permitted to prepare a general purpose financial statement on a "partial consolidation" basis, resolution of issue (b), and its consequence for issue (c), will also require the PSC to consider a range of questions, including the following:
						• 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 GFS) be required to be made in that statement?
						• If so:
						  • what prominence should it be given in whole of government fully consolidated general purpose financial statements?
						  • should a GGS asset "investment in controlled entities in other sectors" be required to be disclosed?
						  • if "investment in controlled entities in other sectors" is disclosed, how should it be measured (initially recognised amount, fair value, proportion of recognised net assets of the investee, some other basis)?
						  As with (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?
						• How should other GFS sectors be treated?

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
						If PSC were to require financial information about the GGS (as defined by GFS) to be disclosed in whole of government general purpose financial statements and "investment in controlled entities in other sectors" is 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 GFS as the market value of those other sectors – see Issue 2.1), 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. In relation to the more general question of the scope of the entity, consideration should be given to developing common tests of control with a view to deriving a common view on what is included in the public sector. This work would need to link to any work undertaken by the IASB on control. ESA95 and GFSM definitions of the general government sector, local government, etc are taken from the SNA93 so they are the same. However, ESA95 have developed some rules, for example, for corporations. ESA95 and GFS 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 and Local Government/Public Corporations Link to Matrix 2: Consolidation: SNA to differ. It is relevant to note that Working Group 2 is considering issues relating to the demarcation between GGS and financial intermediary entities (item 2) and between public sector and private sector (item 4). *(HOT's technical paper "Consolidations" and the HOT's conceptual paper "Budget (ex-ante) reporting framework")* .
2: OWNERSHIP RELATION-SHIPS (see also Working Group 2, item 1 super-dividends, capital injections, and reinvested earnings)	2.1	Calculation of net worth/measurement of equity and contributions from owners (this issue is only relevant to 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	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	ESA95 Debt and Deficit Manual (DDM) provides rulings on the treatment of capital injections.	Convergence process: Reconciliation (because there is a potential difference between IPSAS net assets and GFS net worth in the PNFC and PFC sectors – GFS 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] whereas GAAP treats it as equity and measures it at its originally recognised amount [that is, it is not subject to remeasurement]). Also, it would be appropriate to align GFS 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). Consider relevant guidance from the ESA-FAWP.

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
			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)	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)		(HOT's technical paper "Issue 5.2" re reduced net worth for commercial government operations)
	2.2	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)		Convergence process: Reconciliation (because GFS recognises it as a liability; whereas IPSASs recognise it as equity). *(HOT's technical overview paper "Issue 5.4" re minority interests.)*
	2.3	(a) Distributions payable to owners as holders of equity instruments (b) Distributions receivable from controlled entities	(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 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)	(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 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	(a) & (b) ESA95 Debt and Deficit Manual (DDM) provides rulings on the treatment of dividends.	(a) Convergence process: Reconciliation (because GFS expenses the distributions [and classifies them as transactions]; whereas IPSASs treat them as a direct reduction of net assets/equity). (b) Convergence process: Reconciliation may be required. PSC could develop guidance on distinguishing dividends from return of contributed capital and in so doing consider the GFS principles for distinguishing between dividends and withdrawal of equity. (However, return of contributed capital is a narrower notion than withdrawal of equity.) In relation to performance reporting, both PSC and GFS would regard dividends from controlled entities as a transaction, and therefore no difference arises. (Although see item 1 of Working Group 2) From a GFS perspective, if total current income would be recorded when earned, not just when it is distributed, 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 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.

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
				equivalent to dividends and are treated the same way. All such withdrawals are recorded on the date payment actually occurs.		(HOT's technical papers "Issue 5.1" re distributions payable to owners, and "Issue 7.2" re distributions receivable from controlled entities.) Link to other issues: Issue 5.8 investment in associates.
	2.4	Privatizations	Paras 47 and 57(b)(iv) of IPSAS 6 are relevant here. While they have a wider implication then 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)	ESA95 DDM provides rulings on the treatment of privatizations.	Convergence process: Further research needs to be done to investigate the differences (if any) between GFS and IPSASs. Link to Working Group 2: Item 2, privatizations and restructuring agencies, and securitization
3: RECOGNITION OF ASSET VS EXPENSE		.	PSC defines assets and expenses as follows: "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". "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	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)		

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			assets/equity, other than those relating to distributions to owners". PSC's asset recognition criteria are: • It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and • The cost or fair value of the asset to the entity can be measured reliably.			
	3.1	Costs associated with (a) Research and development (b) Intangible assets (i) mineral exploration (ii) computer software (iii) other intangible fixed assets	(a) and (b) No IPSAS IASB: The relevant standard is IAS 38 *Intangible Assets* (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. Subsequent costs on an intangible asset after its purchase or completion should be recognised 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. (IAS 38 para. 60)	(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). (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. (i) 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.		OECD: Canberra II Group to consider. This might conclude that instead of expensing all R&D, more (if not all) R&D should be capitalised. Convergence process: (a) & (b) PSC action (consider appropriateness of IAS 38 for the public sector) and Reconciliation, to the extent that GFS expenses and IPSASs capitalise, or GFS capitalises and IPSASs expense. (A difference between GFS and IPSASs is likely to remain due to the asset recognition criteria in IPSASs). *(HOT's technical paper "Issue 4.5")*

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
				(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. (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.		
	3.2	Defense weapons platforms	Specialist military equipment (which includes defense weapons and their platforms) is included in assets on the Statement of Financial Position. Depreciation expense on assets is recorded in the Statement of Financial Performance. (See for example IPSAS 17, issued December 2001, para 3 and 20)	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).		Convergence process: SNA action. It is likely that SNA will be amended to align with IPSAS treatment. *(HOT's technical paper "Issue 4.1")*
	3.3	Borrowing costs	The benchmark treatment in IPSAS 5 *Borrowing Costs*, issued May 2000, requires the immediate expensing of borrowing costs. However, the Standard permits, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. This capitalization increases the annual depreciation charged through the asset's useful life.	"Borrowing costs" is not a classification item in GFS. These costs are broken down into their constituent components and each component treated separately. For example, interest is treated as … and transaction costs are treated as …		Convergence process: No action required. IPSAS 5 provides an option for borrowing costs to be capitalised or expensed in certain circumstances. To the extent that jurisdictions adopt the expense option, convergence is achieved. Link to other issues: Issue 8.14 swap interest. *(HOT's technical paper "Issue 1.2")*

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
	3.4	Land under roads	Recognized as an asset.	Land is the ground itself and major improvements that cannot be physically separated from the land, but excluding, for example, roads [being the road as distinct from the land under the road]. In determining a market price for land, the location and the uses for which it is suitable or sanctioned must be taken into account. (*GFSM* paras. 7.70 - 7.72)		IPSAS 17 provides a transitional period of 5 years during which its requirements can be phased in. In Australia, as 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. **Convergence process:** No action required – both IPSASs and GFS require the recognition of land under roads. *(HOT's technical issues overview paper- last page)*
	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. It is likely that consistent with those principles the costs would be treated as expenses. If assets arise as a consequence of such subscriptions, or in respect of them, they could only be contingent.	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".	**Convergence process:** Reconciliation (to the extent that IPSASs would recognise an expense and GFS would recognise an asset) Alternatively – GFS consider aligning with IPSAS treatment (that is, asset/expense definition and recognition criteria). **Link to other issues:** Issue 6.2 IMF SDRs *(HOT's technical issues overview paper "Issue 4.3")*
	3.6	Public private partnerships including BOOT schemes	IPSASs do not prescribe treatment for these schemes.	GFSM 2001 does not prescribe treatment for these schemes. First principles need to be applied to the contract arrangements.	ESA95 DDM provides rulings on the treatment of public private partnerships. These are being reviewed by a Eurostat Task Force. UK has accounting guidelines for public private initiatives and the statisticians follow these guidelines.	OECD Canberra II Group to consider. 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. **Convergence process:** Further work needs to be done on this issue to determine the extent to which GFS differs from IPSASs. There is currently debate, in both the statistical and accounting professions, on how to treat public private partnerships.

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
4: RECOGNITION VS NON-RECOGNITION BY A COUNTERPARTY/SYMMETRY	4.1	Constructive obligations (including restoration costs)	Provisions are defined as liabilities of uncertain amount and timing. "A provision is recognized when: (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation." (IPSAS 19, issued October 2002, para. 22) "A constructive obligation is an obligation that derives from an entity's actions where: (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities." (IPSAS 19 para. 18) 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. PSC's Social Policy Obligations Steering Committee has issued (January 2004) an ITC on *Accounting for Social Policies of Governments*.	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. Constructive obligations are not recognized in the GFS system as they are not economic assets in the books of the counterparty. (See *Glossary* for definitions of assets and liabilities)		Convergence process: Reconciliation (because GFS does not recognise 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). Alternatively, GFS consider adopting IPSAS treatment of constructive obligations. No action is required in relation to restoration costs. 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. This is consistent with how GFS treats restoration costs Link to Working Group 2: Item 3, Contingent assets (state guarantees), constructive obligations, and provisions. (HOT's technical issues overview paper "Issue 4.6")
	4.2	Tax effect accounting	No IPSAS IASB: IAS 12 (revised October 2000)	GFS would not recognize a deferred tax asset or liability.		Convergence process: Reconciliation (because if PSC were to adopt IAS 12 for income tax equivalents, a taxpayer [potentially a PFC or PNFC] would recognise a deferred tax asset or liability [that GFS would not recognise] and the tax collector [GGS] would not recognise the related deferred tax liability or asset under GAAP [see Issue 7.1(b)] or GFS.)

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
						(HOTARAC unnumbered technical paper)
	4.3	Employee stock options (ESOs)	IPSASs do not prescribe treatments for these schemes. IASB: see IASB ED 2	No specific GFS 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.		This has been the subject of much international debate in recent years. At the October 2002 OECD National Accounts Experts Meeting the following decisions were taken. ESOs are part of employee remuneration and should be included in compensation of employees. The time of valuation is the vesting date, or when the ESO becomes tradable if before vesting. Before vesting an ESO is a contingent asset of the employee and a contingent liability of the employer. The ESOs should be recorded progressively over the service period between the grant date and the vesting date, as this is the period over which access to the ESOs is earned by the employee. The valuation is the market price of the option. Implementation of these decisions was put on hold until the details of the recommendations of the IASB were known. The OECD is then to prepare a proposal to the ISWGNA. IASB has an active project on share-based payment. Convergence process: Further work needs to be done on this issue to determine the extent to which GFS differs from IPSASs. *(HOT's technical issues overview paper "Issue 4.7")*
5: MEASUREMENT OF ASSETS AND LIABILITIES			**General principles:** mixture of market and fair values and historical cost. 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 arm's length transaction. IPSAS 16 *Investment Property* (issued December 2001) and IPSAS 17 *Property, Plant and Equipment* allow measurement at historical cost or fair value. IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* 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.	All flows and stocks should be valued at the amounts for which goods, assets other than cash, services, labor, or the provision of capital are in fact exchanged or could be exchanged for cash. These values are referred to as **current market prices** or values. (*GFSM* para. 3.73) 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)		Convergence process: As a general comment, further work needs to be done to link 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. SNA needs to 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.
	5.1	Non cash flow generating assets	IPSAS 17 *Property, Plant and Equipment*	All assets are to be valued at market value. The *GFSM* provides some guidance on ways to estimate market		Convergence process: No action needed (although could consider improving/aligning guidance in

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
				value for assets that are non cash flow assets. (*GFSM* paras. 7.22 - 7.30)		IPSAS/GFS 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) there is conceptually no difference between IPSASs and GFS (except to the extent that fair value differs from market value).
	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 (*GFSM* para. 3.73)		Convergence process: No action required. There is no conceptual difference between GFS and IPSASs in relation to the frequency of valuations. (Note: this issue could alternatively be classified in broad category 10) Link to other issues: Issue 8.4 re gain/loss on sale of assets.
	5.3	Impaired 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)		Convergence process: Further work needs to be done to consider the extent to which GFS agrees with the proposed PSC approach to impairment of assets, including non-cash flow generating assets.
	5.4	Transaction costs: (a) acquisition of nonfinancial assets (b) acquisition of financial assets (c) equity instruments (d) disposal of non-financial assets (e) disposal of financial assets	(a) IPSAS 17 *Property, Plant and Equipment* prescribes that "an item of property, plant and equipment which qualifies for recognition as an asset should initially be measured at its cost." Cost includes any directly attributable costs of bringing the asset to 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) … (c) …	Transactions costs (includes all transport and installation charges and all costs of ownership transfer) are capitalized for nonfinancial assets and are expensed for financial assets and liabilities (*GFSM* paras. 7.22, 8.6 and 9.7).		Convergence process: (a) No action required (because there is no difference between GFS and IPSASs). (b) PSC action (consider improved IAS 39 – revised January 2004). In relation to acquisition of financial assets, improvements to IAS 39 are being considered by the IASB. Transaction costs are one of the issues being reviewed. (At its July 2003 meeting, the IASB tentatively agreed that transaction costs should be included in the initial measurement of items other than those measured at fair value with changes in fair value recognised in profit/loss. Under IAS 39, financial instruments would be measured at fair value with changes in fair value recognised in profit/loss to the extent that they are deemed to be held for trading. Although this tentative decision was not made in the context of the IASB's Reporting Comprehensive

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
			(d) … (e) …			Income Project, it would appear that the IASB would require transaction costs incurred on the acquisition of financial assets that will be measured at fair value [through comprehensive income] to be expensed [presumably as a transaction] on acquisition.) (c), (d) & (e) Further work needs to be done to consider the treatment of transaction costs on (c) the issue or intended issue of equity instruments (see Australia's UIG 23); (d) disposal of non-financial assets; and (e) disposal of financial assets. **Link to other issues:** Issue 8.7 re treatment of point-of-sale costs in relation to biological assets. *(HOT's technical issues overview paper "Issue 6.3")*
	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)		Convergence process: SNA action (IMF is hosting an Electronic Discussion Group [EDG] on nonperforming loans and the moderator's report will feed into the SNA Review). Link to other issues: Issue 8.12 bad and doubtful debts.
	5.6	Low interest and interest free loans	Consider principles in ITC on *Revenue from Non-Exchange Transactions (Including Taxes, Transfers and Grants)*	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 actual		Convergence process: Further work needs to be done on this issue to determine the extent to which GFS differs from IPSASs. PSC action (consider ITC on non-exchange revenue). GFS action (consider partitioning loans) and extent to which GFS agrees with the proposed PSC approach in the ITC.

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
				transactions value and the market value of the loan and the loans are recorded at nominal value (*GFSM* para. 7.111). (Nominal value is the amount that a debtor owes to the creditor at any moment (*GFSM* para. 3.76).)		Link to Matrix 2 SNA 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 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)		Convergence process: IASB action (PSC could consider requiring [or allowing] all inventory to be measured at current replacement cost [particularly where regular revaluations are undertaken for other assets]. 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)*
	5.8	Investments in associates	IPSAS 7 *Accounting for Investments in Associates* (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	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.		Convergence process: Reconciliation (particularly in relation to traded shares – GFS may accept equity accounting in relation to untraded shares). It is unlikely that GAAP will align with GFS for some time, except to the extent that the equity accounting method provides the best estimate of market value. In relation to performance reporting, 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. Link to other issues: broad category 2 & 8 – in relation to dividends from associates (cf income

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
			recognized in the investor's reserves.			from associates). *(HOT's technical issues paper "Issue 5.3")*
	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.		Convergence process: PSC action (consider improved IAS 39). If PSC were to adopt improved IAS 39 and entities elect to measure unquoted shares at fair value, there is conceptually no difference. **Further work needs to be done to consider:** The implications for convergence in circumstances where a reliable measure of fair value cannot be determined under IAS 39. (Editor's note: the notion of "reliable measurement" may be a cause of a general difference between GFS and GAAP. Does GFS accept a measurement of current value that GAAP would regard as "unreliable"?). Link to other issues: Issue 5.8 re investment in associations, broad category 1 re accounting for controlled entities, and Issue 8.6 re treatment of valuation changes.
	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 they are non-marketable, fixed interest liabilities, i.e., the market value does not change.	Recorded as loans and valued at nominal value (GFSM 2001 page 32, footnote 8) GFSM 2001 para 3.76 states that "liabilities should be valued at their current market value when recorded on the balance sheet". For loans that are not traded on markets, it is necessary to value them at nominal value. If loans become marketable on secondary markets, they are reclassified as securities other than shares and are valued at market prices (GFSM 2001 para 7.111)		Convergence process: Further work needs to be done to consider whether the carrying amount of the lease liability under IPSASs will always reflect current market value as required by GFS.
	5.11	Biological assets	No IPSAS IASB: IAS 41 (February 2001).	In relation to biological assets, 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)		Convergence process: PSC action (consider IAS 41). A reconciling difference may continue to exist. Link to other issues: Issue 8.7 cultivated assets – change in fair value.

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						(HOT's technical issues paper "Issue 2.4")
	5.12	Found/discovered non-financial assets	Initial recognition of existing assets would result in revenue recognition during the period. 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 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.		Convergence process: Further work needs to be done to consider how IPSASs and GFS treat assets that have previously been acquired or contributed and are identified and recognised as assets for the first time and their initial acquisition cost or fair value as at the date of contribution is not able to be practicably determined. (Note, the AASB proposes in ED 125 to require measurement of previously contributed or acquired assets [that have not been previously identified and recognised 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.) Link to other issues: Issue 8.9 in relation to whether the initial recognition is as a transaction or an other economic flow and Issue 7.1(c)(ii) in relation to correction of error when recognising a subsequently found asset.
	5.13	Extractive industries (except subsoil assets)	No IPSAS IASB: under development. In Australia, extractive industries recognize assets/inventories when severed from the ground. Inventory is recognized at cost and subject to the normal net realizable value test.	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.		Convergence process: **The IASB is developing an IFRS, and then PSC should consider whether to adopt it. During this process, further work is required to investigate whether the following issues give rise to GAAP/GFS differences:** • definition/identification of inventory • absorption of exploration and evaluation costs into the cost of inventory • treatment of sale of inventory • depreciation/amortisation • impairment. **Link to other ISWGNA work:** Another Group is investigating mineral exploration expenditures and subsoil assets (sale of exploitation licences)

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						(HOT's technical issues overview paper "Issue 2.5")
	5.14	Subsoil assets	No IPSAS	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, market prices may be available (*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).		GFS: The nature of the contractual arrangements needs to be examined in order to determine the classification of these receipts and their depletion. 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) Convergence process: Both PSC and IMF 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 recognised under GFS. **Link to other ISWGNA work:** Another Group is investigating mineral exploration expenditures and subsoil assets (sale of exploitation licences) *(HOT's technical issues overview paper "Issue 2.5")*
	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)		**Measurement is potentially different. Consumption of fixed captial may use different economic lives and rates of consumption.** Convergence process: Reconciliation, to the extent that measurement is different. (Even if measurement is the same, if IPSAS historical cost valuation of depreciable assets is adopted, reconciliation would be required.) *(HOT's technical paper "Issue 7.3")*
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	**General** No IPSAS on recognition/derecognition. IASB: IAS 39 *Financial Instruments: Recognition and Measurement* 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: loans and receivables originated by the enterprise and not held for trading - with fixed maturity measure at amortized cost using the effective interest method; no fixed maturity, measure at cost. For liabilities, other than liabilities held for trading and	(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	(a) ESA95 DDM provides rulings on the treatment of debt assumption. (b) ESA95 DDM provides rulings on the treatment of debt cancellation. (c) ESA95 DDM provides rulings on the treatment of debt rescheduling. (e) ESA95 DDM provides rulings on the treatment of securitization	(a) Convergence process: PSC action (consider IAS 39). Link to Matrix 2: GFSM 2001 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. **(b) Convergence process:** Further work is required to be done in relation to comparing GFS derecognition requirements with 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

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
			derivatives that are liabilities, at amortized cost. For liabilities held for trading or derivatives, record at fair value. 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)	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. *(GFSM 2001* Appendix 2, para. 4-6) (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. (*GFSM* Appendix 2) (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. (*GFSM* Appendix 2) (d) Debt defeasance is where one unit removes liabilities from its balance sheet by pairing them with financial assets, the income and value of which are sufficient to ensure that all debt-service payments are met. This may be achieved by placing the assets and liabilities in a separate account within the institutional unit concerned or by transferring them to another unit. In GFS, 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)		of control). (c) Convergence process: Reconciliation, even if IPSASs were to adopt improved IAS 39 and a transactions/other economic flow split, to the extent that GFS does not recognise revenue/expense arising from debt rescheduling. (Editor's note: the above comment reflects my current understanding of IAS 39 relative to GFS. 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 GFS 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 recognising notional transactions). (d) Convergence process: Further work is required to be done to assess whether there is a difference in the requirements under GFS and IPSAS 15 (para 39) relating to right of set off. 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). (e) Convergence process: • PSC action (consider improved IAS 39). • GFS action (clarification) Further work is required in relation to comparing GFS derecognition requirements with 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) Link to other issues: In relation to (a), see Issue 2.1 re contributions from owners. In relation to (b), see Issue 8.12 re bad and doubtful debts and Issue 5.5 re non-performing loans. **Link to Working Group 2**:

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
				can be set up when governments undertake securitization. The classification of SPVs requires clarification		Item 2, privatizations and restructuring agencies, and securitization. *(HOT's technical paper "Issue 3")*
	6.2	IMF Special Drawing Rights (SDRs)	No IPSAS.	A SDR is a financial asset for which there is no corresponding liability, and members to whom they have been allocated do not have an unconditional liability to repay their SDR allocations. 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) 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.		Convergence process: Further work is required to be done in relation to: • Should a distinction be made between used rights and unused rights? • How does GFS measure unused rights? • How should SDRs be treated under IPSASs? **Link to other issues:** See issue 3.5 Subscriptions to international organisations *(See the HOT's technical issues overview paper "Issue 7.1")*
	6.3	Currency on issue/ seigniorage	No IPSAS Consider application of principles in ITC on Non-Exchange Revenue being developed.	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 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		Convergence process: Further work is required to be done. In particular: • This issue should be considered in 2 parts: seigniorage separately from currency on issue; and • In relation to currency on issue, a distinction should be made between notes and coins.

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
				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 remittance to the government is recorded as non-tax revenue.		

7: TIME SERIES	7.1	Prior period adjustments/back casting
		
		(a) general
		
		(b) taxes
		
		(c) prior period revisions:
		(i) preliminary through to final (change in estimates)
		(ii) correction of errors
		(iii) voluntary changes in accounting policies
		(iv) involuntary changes in accounting policies
			(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).
			
			(b) No IPSAS. PSC ITC on non-exchange revenue is about to be issued.
			
			(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.
			
			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.
				(a) & (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)
				
				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)
				
				(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.
					ESA95 DDM 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."	Convergence process:
						
						• (b) No action required (except to the extent to which (c)(i)/(ii) apply). In relation to taxes, both GFS and IPSASs are consistent in principles but both acknowledge that time of recording, in practice, may be different, e.g., at time of assessment. GFS to monitor proposals in PSC-ITC- (note link to Working Group 2 also)
						• (c)(ii) PSC action (consider improved IAS 8 (issued …). 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 GFS in relation to correction of errors. Therefore, no action would be required on this aspect.
						• (c)(iii) No action required.
						• (c)(i), (ii) & (iv) Reconciliation, where reconciling differences remain in relation to:
						  • (c)(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 requires retrospective adoption. To the extent that this approach is adopted in IPSASs, no reconciling difference will exist, but this is not likely.)
						  • (c)(i) vs (ii), to the extent that GFS treats something effectively as a correction of an error that PSC treats as a change in estimate (for example, reassessment of income tax, actuarial adjustments on superannuation).
						
						Link to Working Group 2:
						Item 5, Tax revenue, uncollectible taxes, tax credits.
						
						A related issue is the definition of "material". 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 GFS 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

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
						much easier. *(HOT's technical paper "Issue 1.1")*
	7.2	Time of recording of tax revenue	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.)	Tax revenue is recognised 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) 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)		Convergence process: **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 GFS cf IPSASs recognise property taxes as revenue?) Link to other issues: Issue 7.1(c)(i) **Link to Working Group 2:** Item 5, Tax revenue, uncollectible taxes, tax credits.
8: FINANCIAL STATEMENTS, WITH AN EMPHASIS ON PERFORMANCE REPORTING (FOR THE REPORTING ENTITY AND/OR SECTORS THEREOF)	8.1	General: format and presentation (including classification) of financial statements	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. The IASC's "Framework for the Preparation and Presentation of Financial Statements" (adopted in April 2001) is a relevant reference for users of IPSASs. 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,	GFS 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) "Analytical framework is a set of interrelated statements derived from the *1993 SNA* that integrate stocks and flows." (*GFSM* para. 4.3) 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) Additional information is available as memorandum items, for example,		GFS Statement of Government Operations corresponds to the IPSAS Statement of Financial Performance (although the GFS Statement of Government Operations is different from the IPSAS Statement of Financial Performance as it includes transactions in assets and liabilities), GFS Balance Sheet corresponds to IPSAS Statement of Financial Position, and GFS Statement of Sources and Uses of Cash is almost identical to the IPSAS Cash Flow Statement. The frameworks are very similar. However, the way in which the frameworks are presented through financial statements vary considerably. Convergence process: In relation to financial performance, one way forward would be for GFS and IPSASs to agree on a single comprehensive statement of financial performance that splits the comprehensive result into two components that broadly align with the GFS split between transactions and other economic flows. (That split is similar to the before remeasurements/ remeasurements split identified by the IASB as a possible format for reporting comprehensive income).

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments

			surplus/(deficit) from operating activities, surplus/(deficit) from ordinary activities, and net surplus/(deficit) for the period.
			
			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 GFS classifications.
				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)
				
				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)
				
				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 from a transaction. (GFSM 2001, para. 3.25)
						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" financial statements or are they only for presentation of financial information about the GGS in the notes or are they both.
						
						Issues for PSC to resolve if PSC is to change IPSASs include:
						• Should a single statement of financial performance be prepared that reports comprehensive result. If yes, should the comprehensive result be split into two components?
						• How should the split be done?
						• If the split is on a GFS basis, does PSC agree with the definition of "transactions", particularly in relation to:
						  ◦ Issue 5.8, in relation to dividends from associates,
						  ◦ Issue 5.12 in relation to found/discovered nonfinancial assets,
						  ◦ issue 8.7 cultivated biological assets – change in fair value (in part)
						  ◦ issue 8.10 assets seized without equivalent compensation,
						  ◦ issue 8.11 amortisation of nonproduced assets,
						  ◦ issue 8.12 bad and doubtful debts,
						  ◦ issue 8.13 excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, and
						  ◦ issue 8.14 swap interest?
						• How should "below-the-line" GFS analytical balances (such as net lending/borrowing) be presented? Is a Statement of Financial Performance and Fiscal Impact appropriate?
						• How should "below-the-line" GFS analytical balances be calculated – using GAAP or GFS measures of the underlying components?
						• How should any remaining reconciling differences between GFS 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)?
						
						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.)
						
						Issues for IMF to resolve if GFS is to change include:

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments

						• Should the Statement of Government Operations and the Statement of Other Economic Flows be combined into one Statement?
						• Are the current definitions of “transactions” and “other economic flows” appropriate?
						
						If GFS and PSC could resolve performance reporting issues, many specific technical issues will be resolved, including:
						• 2.3(b) distributions receivable from controlled entities
						• 8.2 repurchase premiums and discounts on debt securities
						• 8.3 unfunded pension schemes – actuarial adjustments
						• 8.4 holding gains and losses
						• 8.5 investment property – change in fair value
						• 8.6 financial assets – change in fair value
						• 8.7 cultivated biological assets – change in fair value (in part)
						• 8.8 initial recognition of other naturally occurring assets
						• 8.9 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
						
						In relation to cash flows:
						• PSC could consider a format in which cash surplus/deficit (as determined by GFS) is presented on the face of the Statement of Cash Flows.
						• GFS could consider not allowing disclosure of notional cash flows relating to finance leases effectively on the face of the Statement of Cash Flows (see issue 8.16).
						
						In relation to the presentation of the statement of Financial Performance and Statement of Financial Posiition, PSC could consider encouraging adoption of GFS functional classifications (Classification of the Functions of Government – COFOG) for presentation purposes. To this end, consideration could be given to shifting segment reporting to functional reporting (that is, require reporting according to COFOG rather than by segments if they are different or at least acknowledge that COFOG may satisfy segment reporting requirements).
						
						Most of the following 15 specific technical issues relate to some degree to performance reporting issues. They are subcategorized into the following types:
						• (a) items where GAAP and GFS are expected to align in classifying items as other economic flows, and further classified as:
						  • (i) remeasurements
						  • (ii) other volume changes
						• (b) items where GAAP and GFS are not expected to align in classifying items as:
						  • transactions
						  • other economic flows
						    • remeasurements

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
						• volume changes • (c) other. *(HOT's technical paper "Pro-forma financial statements" and the attachments to the HOT's conceptual paper "Objectives of GAAP and GFS")*
	8.2	Type (a)(i) 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, the repurchase premiums and discounts are recorded as price changes in the Statement of Other Economic Flows at the time of the offer.		Recording of the liability redemption is the same in both systems but the treatment of the price change is not. **Convergence process:** PSC action (consider adopting IAS 39 and performance reporting [as described in issue 8.1 above]). If IPSASs were to adopt a transactions/other economic flow split, the difference would be resolved – both GFS and GAAP would classify it as "other economic flows – remeasurement"..
	8.3	Type (a)(i) Unfunded pension schemes – actuarial adjustments	No IPSAS IASB: under IAS 19 (revised 2000)Government defined benefit pension schemes: Employer contributions, interest, and actuarial revaluation are treated as revenue or expense items in the Statement of Financial Performance.	Obligations of employer social insurance pension schemes (funded and unfunded) are recognized in the *GFSM 2001*. (*GFSM* Annex to Chapter 2) Transactions in these schemes occur as a result of contributions receivable, interest payable due to the passage of time, and benefits payable. Any other amounts arising from actuarial revaluations are recorded as other economic flows and should be recorded in the relevant periods.	Eurostat has establish a task force on pension schemes.	**Convergence process:** PSC action (consider adopting improved IAS 19 and performance reporting). If IPSASs were to adopt IAS 19 (improved) and a transactions/other economic flow split, the difference would be resolved (both GFS and IPSASs would recognise actuarial adjustments as "other economic flows – remeasurements"). **Link to Matrix 2:** SNA does not recognize liabilities for employer social insurance unfunded pension schemes. IMF is hosting an EDG on pension schemes and the moderator's report will feed into the SNA Review. **Link to other issues:** Issue 7.1(c), to the extent that actuarial adjustments are back cast under GFS but treated as current period revenue/expense under IPSASs. *(HOT's technical paper "Issue 2.1", which is in the process of being further developed by South Australia and NSW treasuries)*
	8.4	Type (a)(i) Holding gains and	Asset revaluation increments for property, plant and equipment are taken	Holding gains result from price changes and can accrue on all		GFS: All revaluations including market value movements arising immediately prior to the sale are treated as other economic flows.

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
		losses (including gain or loss on sale of assets)	to the asset revaluation reserve (an equity account) except where they reverse previous decrements. Decrements are recognised 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.	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) Foreign exchange gains and losses are recorded as other economic flows.		**Convergence process:** • PSC action (consider IASB – or own – performance reporting project); and, possibly • Reconciliation (relating to gross/net revaluations – as noted immediately below). If IPSASs were to adopt a transactions/other economic flows split, the difference would be broadly resolved (both GFS and GAAP would classify it as “other economic flows – remeasurements”). However, a specific issue relates to the extent to which GFS and IPSASs agree on the setting off of revaluation increments and decrements. IPSAS 17 requires set off at a class of assets level. Like issue 10.1 relating to the tax gap and issue 8.15 relating to tax credits, this is a gross vs net issue. That is, the net amount is the same but gross amounts of holding gains and losses could differ between GFS and IPSASs. **Link to Matrix 2:** SNA includes reinvested earnings on direct foreign investment as an imputed purchase of shares and other equity but this imputation is not made in the GFS system. The increase in the value of shares and equity is treated as a holding gain – see broad category 2. *(HOT’s technical paper “Issue 2.3”)*
	8.5	Type (a)(i) Investment property – change in fair value	IPSAS 16 *Investment Property* 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 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	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.		IPSAS 16 provides a measurement option. It would be necessary for an entity to choose the fair value option to achieve convergence. **Convergence process:** PSC action (consider IASB – or own – performance reporting project). If IPSASs were to adopt a transactions/other economic flow split, the difference would be resolved, provided IPSASs allow depreciation of the building component of investment property measured at fair value to be presented as a transaction separately from price change (which would be presented as an “other economic flow – remeasurements”). *(HOT’s technical paper “Issue 6.1”)*

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
			the property will be depreciated.			
	8.6	Type (a)(i) 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 (GFSM 2001, para 10.2)		Convergence process: PSC action (consider adopting improved IAS 39 and performance reporting project. If IPSASs were to adopt improved IAS 39 (which has an option to designate all financial instruments as held for trading, which would result in all financial instruments being measured at fair value with changes in fair value recognised in the comprehensive financial performance report) and a transactions/other economic flow split, the difference would be resolved (both GFS and IPSAS would classify fair value changes as "other economic flows – remeasurements"). **Further work needs to be done to consider:** Financial performance reporting by financial institutions (and whether changes in current value should be treated as transactions rather than other economic flows.) *(HOT's technical apper "Issue 3")*
	8.7	Type (a)(ii) Cultivated assets (i.e. biological assets) – change in fair value	No IPSAS IASB: IAS 41 Biological assets are living animals or plants. They should be measured "on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs ..." (IAS 41 *Agriculture*, para. 12) Under its performance reporting project, the IASB is expected to differentiate between price and volume changes.	Cultivated assets consist of animals and plants that are used repeatedly and continuously for more than one year to produce other goods and services. Animals are valued at current market prices and plants at written-down replacement cost. (*GFSM* paras. 7.48 - 7.50) 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		Convergence process: PSC action (consider IAS 41 and performance reporting). If IPSASs were to adopt IAS 41 and a transactions/other economic flow split, the difference would be resolved in certain circumstances (both GFS and IPSASs would recognise price change as an "other economic flow – remeasurement" 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 GFS, price and volume changes are both classified as "other economic flows". Further work needs to be done to consider: • 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) • Are there any issues relating to cultivated biological assets that are not held primarily for profit? (IAS 41 is applicable to for-

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
				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.		profit entities). • What are the implications of IAS 41's acknowledgement that fair value may not be able to be determined reliably? Link to other issues: 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. *(HOT's technical paper "Issue 2.4")*
	8.8	Type (a)(ii) Initial recognition of other naturally occurring assets (including noncultivated biological assets, water resources, and the electromagnetic spectrum)	Natural increases of animals or forests - IAS 41 would require recognition in the Statement of Financial Performance.	These assets are usually valued at the net present value of expected future returns. (*GFSM* paras. 7.75 - 7.77)		Convergence process: 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 GFS and IPSAS would classify the initial recognition as an "other economic flow – other volume changes")
	8.9	Type (a)(ii) 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.	"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 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; and (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.	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. (GFSM 2001, para. 7.4) If an asset, which is known to exist but is not classified as an economic asset, becomes an economic asset because of a change in relative prices, technology, or some other event, then an other volume change is recorded to recognize the asset's value and add it to the balance sheet. Conversely, an economic asset may need to be removed from the balance sheet because it is no longer capable of supplying economic benefits or because the owner is no longer willing or capable of exercising ownership rights over the asset. (*GFSM* 10.30-10.36)		Convergence process: • OECD: Canberra II Group to consider measurement of nonfinancial assets. • PSC action (performance reporting). 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 (both GFS and IPSASs would recognise the "initial recognition" as an "other economic flow – other volume changes"). Link to Matrix 2: • OECD: Canberra II Group to consider measurement of nonfinancial assets. Link to other issues: Issue 8.11 re amortisation of intangible non-produced assets. *(HOT's technical paper "Issue 2.6")*
	8.10	Type (b)	See issue 8.9 re recognition process and			**Convergence process:**

Broad Category	Issue No.	Issue	Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)	Treatment in *GFSM 2001*	Treatment in ESA 95	Comments
		Assets seized without equivalent compensation	recognition criteria.			Because "initial recognition" does not occur through revaluation,, reconciliation will be necessary because, in these cases, it is possible that IPSASs would classify the initial recognition as a transaction, rather than as an other economic flow. Alternatively, GFS action – consider whether initial recognition should be classified as a transaction.
	8.11	Type (b) Amortisation of intangible nonproduced assets	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)		Convergence process: 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. PSC action (consider suitability of IASB decisions relating to IAS 38). GFS action (consider treating amortisation of intangible nonproduced assets as a transaction). **Link to other issues:** Issue 8.9 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. *(HOT's technical paper "Issue 4.4")*
	8.12	Type (b) Bad and doubtful debts (including bad debts arising from uncollectible taxes)	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. (GFSM 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). (*GFSM* Appendix 2 para. 9) Uncollectible taxes will be retained on balance sheet as an accounts receivable until a debt cancellation, write-off, or write-down has taken place. (*GFSM* Appendix 2)		Convergence process: Reconciliation, because it is likely that a difference between GFS and IPSASs will remain even if IPSASs were to adopt a transactions/other economic flow split. It is not yet clear how the IASB Reporting Comprehensive Income Project will conclude that bad and doubtful debts should be classified for performance reporting purposes. It is likely that, consistent with the sector neutral principle, PSC would be influenced by the IASB's conclusions. Therefore, 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 GFS (because GFS 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 GFS (because GFS classifies unilateral write offs as other economic flows). Link to other issues:

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						See issue 5.5 re non-performing loans. *(HOT's technical paper "Issue 4.2")*
	8.13	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 GFSM 2001 (para 3.9) partitioning of transactions may take place if a transaction is not at market value. The actual transaction should be partitioned into 2 transactions, one that is only an exchange and one that is only a transfer. For example, if a 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.		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. Convergence process: Will be reconciliation (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 GFS treats it as an other economic flow. *(HOT's technical issues overview paper – last page)*
	8.14	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 the Statement of Financial Performance.	Transactions in financial derivatives are treated as transactions in financial assets and liabilities. There are no transactions in revenue and expense. Therefore, swap interest is not a revenue or an expense – it is a transaction in a financial asset or liability. Any cash settlement payment is recorded as a transaction in financial derivatives. (*GFSM* 9.44-9.49) Realized and unrealized holding gains and losses are recorded as other economic flows.		Convergence process: Even if IPSASs were to adopt a transactions/other economic flow split, it is possible that IPSASs would treat swap interest as a transaction, rather than as an other economic flow. GFS action (consider treating swap interest as a transaction). Link to Matrix 2: SNA treatment of derivatives already amended – although in accounting the interest would be recorded as a revenue or expense, in the statistical world it would be recorded as a transaction in an asset or liability and there would not be an entry in revenue or expense. *(HOT's technical issues overview paper "Issue 3.1")*
	8.15	Type (c) 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)		OECD 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 issue as, like tax gap above, 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.

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						Convergence process: 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 GFS) aligns with the ITC notions and treatments. Link to Working Group 2: Item 5, Tax revenue, uncollectible taxes, tax credits.
	8.16	Type (c) 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.		In Australia, lease payments at the inception of the lease are included in the GFS cash flow statement to achieve consistency of the cash surplus/deficit measure determined in accrual-based GFS statistics with the cash surplus/deficit measure in the previous cash-based GFS statistics. Convergence process: GFS action (consider not allowing finance leases to be effectively presented on the face of the statement of cash flows).
Broad Category	**Issue No.**	**Issue**	**Treatment in IPSASs (or in IASs/IFRSs where no IPSAS is in place)**	**Treatment in *GFSM 2001***	**Treatment in ESA 95**	**Comments**
9: TERMINOLOGY AND DEFINITIONS	9.1	Terminology and definitions	Terms used in *GFSM 2001* 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 GFS and IPSAS *Glossaries.*	Terms used in *GFSM 2001* 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 GFS and IPSAS *Glossaries.*		Convergence process: No separate action required – to the extent that matters are expected to be resolved through performance reporting (see broad category 8). 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). Furthermore, consideration could be given to one framework adopting the definitions in the other framework where one has a definition and the other does not. (For example, IPSASs define provisions and GFS does not. GFS defines transactions, other economic flows and sectors and IPSASs do not) Although fair value (PSC) and market value (GFS) are similar, they are not the same. Further work should be undertaken to ensure that unintended differences do not arise. Furthermore, GFS could consider using terminology that is more aligned with GAAP terminology. For example, terms such as "analytical balances"

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						used in GFS 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. Adopting this convergence process may help avoid any unintended differences going forward.
10: ITEMS CONSIDERED AND FOUND NOT TO BE A CAUSE OF A DIFFERENCE	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. (Betty, this isn't clear to us)	It is relevant to note that this is partly a gross vs net issue, and therefore arguably a lower order issue. That is, although it is possible that gross revenues and expenses may differ between GFS and IPSAS (depending on how each treats the tax gap), the net result would not differ. Convergence process: PSC action (progress the ITC on non-exchange revenue). SNA clarification It is apparent that, depending on the outcome of PSC deliberations on its non-exchange revenue invitation to comment, no difference exists. Link to other issues: This issue is related to the measurement of revenue Link to Working Group 2: Item 5, Tax revenue, uncollectible taxes, tax credits.
	10.2	Purchased goodwill of public corporations		Purchased goodwill is recognized through an other economic flow (other volume change). (GFSM 2001, para 10.35)		Convergence process: No action required.