

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Toronto, Canada

**Meeting Date:** December 5–8, 2023

## Agenda Item 9

For:

☐ Approval

☒ Discussion



☐ Information


### PRESENTATION OF FINANCIAL STATEMENTS

<b>Project summary</b>	<p>The objective of this project is to enhance the communication effectiveness of financial information reported in general purpose financial statements by developing a new IPSAS to replace IPSAS 1, <i>Presentation of Financial Statements</i>.</p> <p>The project is in the Consultation Paper (CP) development phase.</p>	
<b>Project staff lead</b>	<ul style="list-style-type: none"> <li>Anthony Heffernan, Principal</li> </ul>	
<b>Task Force members</b>	<ul style="list-style-type: none"> <li>Ian Carruthers, IPSASB Chair (Task Force Chair)</li> <li>Task Force members will be confirmed after the December 2023 meeting.</li> </ul>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Presentation of Financial Statements Dashboard</a>	<a href="#">9.1.1</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">9.1.2</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">9.1.3</a>
	<a href="#">Project Roadmap</a>	<a href="#">9.1.4</a>
<b>Items requiring feedback at this meeting</b>	<a href="#">Permitting Different Presentation Options</a>	<a href="#">9.2.1</a>
	<a href="#">Draft Consultation Paper — Chapter 1: Project Overview</a>	<a href="#">9.2.2</a>
	<a href="#">Draft Consultation Paper — Chapter 2: Purpose of Financial Statements</a>	<a href="#">9.2.3</a>
	<a href="#">Presentation of Financial Statements — Breakout Session Discussion</a>	<a href="#">9.2.4</a>
<b>Draft Consultation Paper</b>	<a href="#">Draft Consultation Paper, <i>Presentation of Financial Statements</i></a> (Chapters 1 and 2)	<a href="#">9.3.1</a>

## PRESENTATION OF FINANCIAL STATEMENTS: CONSULTATION PAPER DASHBOARD

The table below summarizes the topics to be addressed in the Consultation Paper (CP) and illustrative Exposure Draft (ED) phase of the project, ordered based on the expected sequence of the ED.

	Sept 2023	Dec 2023	Mar 2024	Jun 2024	Sept 2024	Dec 2024	Mar 2025	Jun 2025
<b>Overall Project Management</b>								
Completion of research and scoping phase	✓							
Approval of Project Brief	✓							
Approval of CP and Illustrative ED								
<b>Discussion topics for the development of CP and Illustrative ED</b>								
Objectives								
Scope								
Definitions and Terminology								
Purpose of Financial Statements								
Components of financial statements								
General principles of presentation <sup>1</sup>								
Materiality								
Statement of Financial Position								
Statement of Financial Performance								
Presentation of Other Comprehensive Revenue & Other Economic Flows								
Statement of Changes in Net Assets/Equity								
Notes to the financial statements								
Alternative presentation approaches (and illustrative examples)								
Disclosure of non-IPSAS performance measures								

<b>Legend</b>	
✓	Task Completed
	Planned IPSASB Discussion
	Page-by-page Review

From Q1 2024, we anticipate the Task Force will meet to review and provide feedback on draft sections of the CP and illustrative ED before they are taken to the Board.

<sup>1</sup> This includes responsibility for financial statements, fair presentation and compliance with IPSAS, reporting period and frequency of reporting, consistency of reporting and comparatives, going concern, aggregation and disaggregation, and offsetting.

## DECISIONS UP TO PREVIOUS MEETING

Meeting	Decisions	<a href="#">Project Brief</a> References
December 2022	No decisions taken	
June 2023	<ol style="list-style-type: none"> <li>The project should focus on general purpose financial statements within the scope of IPSAS 1</li> <li>A new IPSAS on <i>Presentation of Financial Statements</i> should be developed to replace IPSAS 1.</li> <li>The project should include a CP phase, including an illustrative ED.</li> <li>The project brief should include the following key issues: <ol style="list-style-type: none"> <li>Consistency with the Conceptual Framework;</li> <li>Importance of the reconciliation between financial statements and budget information, in accordance with IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i>;</li> <li>Alignment to the extent appropriate with Government Finance Statistics (GFS);</li> <li>Alignment to the extent appropriate with IFRS, including the consideration of: <ol style="list-style-type: none"> <li>The concept of Other Comprehensive Income (OCI) in IAS 1;</li> <li>Enhancements to IAS 1 introduced through the IASB's <i>Disclosure Initiative</i> projects; and</li> <li>Enhancements introduced through the IASB's <i>Primary Financial Statements</i> project.</li> </ol> </li> </ol> </li> <li>The project will not include a broad exploration of financial statement user identification or user needs – the Conceptual Framework already addresses this.</li> </ol>	<p>Paragraph 5.1</p> <p>Paragraphs 4.1 and 5.1</p> <p>Paragraph 7.2</p> <p>Key issue – <i>Consistency with Conceptual Framework</i></p> <p>Key issue – <i>Reconciliation with Budget</i></p> <p>Key issue – <i>Alignment with GFS</i></p> <p>Key issue – <i>Approach to other comprehensive income</i></p> <p>Key issue – <i>Alignment with IFRS</i></p> <p>Key issue – <i>Changes made through IASB's Disclosure Initiative</i></p> <p>Key issue – <i>Usefulness of Information in the Financial Statements, paragraphs</i></p>
September 2023	Project Brief approved by IPSASB	

## INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
December 2022	<ol style="list-style-type: none"> <li>1. Consider Board feedback received during the research and scoping phase in developing the project brief.</li> <li>2. Make <a href="#">A Guide to Data Storytelling in the Public Sector</a> available for IPSASB consideration.</li> </ol>	<ol style="list-style-type: none"> <li>1. Approved Project Brief reflects the discussions at the December 2022 meeting.</li> <li>2. Publication made available through hyperlink.</li> </ol>
June 2023	<ol style="list-style-type: none"> <li>1. Update the draft project brief to reflect the IPSASB's discussions.</li> <li>2. Provide an education session on IPSAS 24, <i>Presentation of Budget Information in Financial Statements</i> reflecting how the proposed replacement of IPSAS 1 could interact with IPSAS 24.</li> <li>3. Include in the Project Brief the:               <ol style="list-style-type: none"> <li>(a) Potential for consequential amendments to IPSAS 2, <i>Cash Flow Statements</i> despite this being outside the project scope;</li> <li>(b) Learning points from the PSAB project; and</li> <li>(c) Reference to the results of the research commissioned by the Academic Advisory Group.</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Approved Project Brief reflects the discussions at the June 2023 meeting.</li> <li>2. Education session on IPSAS 24 and IPSAS 22, <i>Disclosure of Information about the General Public Sector</i> provided at the September 2023 IPSASB meeting.</li> <li>3. Project Brief updated for suggestions received.</li> </ol>
September 2023	<ol style="list-style-type: none"> <li>1. Update the Project Brief based on Board comments.</li> </ol>	<ol style="list-style-type: none"> <li>1. Staff worked with Board members to clear final comments before publishing the Project Brief.</li> </ol>

## PRESENTATION OF FINANCIAL STATEMENTS: PROJECT ROADMAP

Meeting	Completed Discussions / Planned Discussions:
December 2022	<ul style="list-style-type: none"> <li>• Discussion of project background</li> <li>• Discussion on outcomes of scoping and research activities</li> </ul>
June 2023	<ul style="list-style-type: none"> <li>• Development of Project Brief</li> </ul>
September 2023	<ul style="list-style-type: none"> <li>• Education Session on IPSAS 22 and IPSAS 24 —</li> <li>• Approval of Project Brief, <i>Presentation of Financial Statements</i></li> <li>• Project Management Update</li> </ul>
December 2023	<ul style="list-style-type: none"> <li>• Board feedback on draft opening chapters of CP: <ul style="list-style-type: none"> <li>○ Project Overview; and</li> <li>○ Purpose of Financial Statements</li> </ul> </li> <li>• Board discussion on the concept of providing optional approaches for presenting the financial statements</li> <li>• Break-out session discussion on Q1 2024 issues: <ul style="list-style-type: none"> <li>○ Materiality</li> <li>○ Presentation of other comprehensive revenue and expenses</li> </ul> </li> </ul>
December 2023 – December 2024	Continuance of Board discussion on issues and draft sections of CP/ illustrative ED
March 2025	Page-by-page review of the complete draft CP and illustrative ED (draft sections will likely be 'locked down' earlier)
June 2025	Approval of CP, <i>Presentation of Financial Statements</i> , and Illustrative ED

For Board member navigational purposes, a draft outline of the CP structure is provided in the Contents section of the draft CP Agenda Item 9.3.1 (pages 4-5).

## **Permitting Different Presentation Approaches**

### **Question**

1. Does the IPSASB agree to include in the *Presentation of Financial Statements* Consultation Paper (CP) a discussion on permitting different presentation approaches?

### **Recommendation**

2. Staff recommend that the IPSASB agree to explore the concept of permitting different presentation approaches in the CP.

### **Background**

3. Recent stakeholder feedback has encouraged the IPSASB to consider providing increased flexibility in IPSAS for how information is required to be presented in financial statements to improve the usefulness, relevance, and understandability of the information.
4. In response, staff over the last quarter have considered whether to develop the concept of including in IPSAS different financial statement presentation approaches for CP discussion purposes. Under this concept, the reporting entity would choose an approach for presenting its financial statements based predominately on local jurisdictional considerations.
5. Increased flexibility would enable an entity to present information in their financial statements in a consistent manner (i.e., format) as other reports used within a jurisdiction's public financial management (PFM)<sup>2</sup> framework. This would encourage greater integration between the different types of reports used across the public sector for accountability and decision-making purposes – such as information prepared for budgetary, long-term fiscal sustainability, and government finance statistics (GFS) purposes.
6. Increased integration will support the increased use and understanding of information in financial statements, especially where politicians and policymakers often refer to information prepared for budgetary or GFS purposes. Increased integration will also encourage the greater use of accrual-based information prepared in accordance with IPSAS for compiling GFS and budgetary information. This will help improve the quality of data used across all reports.
7. We envisage that if the approach is taken forward, decisions regarding the selection of different presentation approaches would likely be made centrally (for example, by the ministry of finance or accountant general's department) for a whole class or sector of entities. This will ensure that the presentation of financial statements remains comparable with other similar bodies in a jurisdiction.

### **Purpose of agenda item**

8. The purpose of this agenda item is to seek preliminary Board feedback on this new concept and agreement to explore it further through the CP phase of this project.
9. In December, the Consultative Advisory Group (CAG) will also consider this topic. The feedback from the CAG will be shared during the December meeting of the IPSASB.

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<sup>2</sup> Public Financial Management (PFM), in its broadest sense, is the system by which financial resources are planned, directed, and controlled, both externally to and internally within the public sector entity, to enable and influence the efficient and effective delivery of public service outcomes sustainably.

10. Further background and analysis are provided under the following headings to support the Board discussion.
- (a) [Current flexibility provided by IPSAS 1](#)
  - (b) [Impact of accounting policy choices](#)
  - (c) [Reasons for change](#)
  - (d) [Exploring the concept of permitting different presentation approaches](#)
  - (e) [Appendix A: Illustrative examples](#)

**Current flexibility provided by IPSAS 1**

11. How information is presented in financial statements in accordance with IPSAS in practice is often based on a standardized single presentation approach.
12. IPSAS 1 currently provides guidance on the overall considerations for making decisions about the selection, location, organization of information, and minimum content of financial statements. The recognition, measurement, and disclosure of specific transactions and other events are dealt with in other IPSASs.
13. A key objective of establishing requirements in IPSAS 1 for how information should be presented in financial statements is to ensure comparability with the entity's financial statements of previous periods and other entities with similar activities. An underlying objective of developing IPSAS is to facilitate the adoption and implementation of accounting standards to enhance the quality and consistency of practice.<sup>3</sup>
14. It is commonly recognized that comparability in the way information is presented in financial statements supports the provision of financial information (about an entity's financial position, financial performance, and cash flows) necessary for accountability and decision-making purposes. However, it is also recognized that accounting standards should allow flexibility in how information is presented in the financial statements based on the nature of the reporting entity's activities, the transactions incurred, and the impact of other events or circumstances in the reporting period.
15. While the provisions in IPSAS 1 concerning the selection of information for disclosure are primarily principles-based, the provisions concerning how the information selected is required to be presented are fairly prescriptive. IPSAS 1 sets out specific requirements regarding the structure (i.e., the components of the financial statements) and minimum content of the financial statements, including where certain disclosures must be presented.<sup>4</sup>

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<sup>3</sup> Paragraph 3.21 of the Conceptual Framework notes that comparability differs from consistency. Consistency refers to the use of the same accounting principles or policies and basis of preparation, either from period to period within an entity or in a single accounting period across more than one entity. Comparability is the goal, and consistency in the application of IPSAS helps in achieving that goal.

<sup>4</sup> Paragraph 59 of IPSAS 1: The standard requires disclosures on the face of the statement of financial position, statement of financial performance, and statement of changes in net assets/equity and requires disclosure of other line items either on the face of those statements or in the notes. IPSAS 2 sets out requirements for the presentation of a cash flow statement.

16. IPSAS 1 currently provides some flexibility regarding the presentation of additional information in financial statements. For example, IPSAS 1 permits the display of additional line items, headings, and subtotals on the face of the primary financial statements and encourages additional note disclosure when needed for users to understand the entity's financial position, financial performance, and cash flows.<sup>5</sup>
17. IPSAS 1 also currently provides some specific presentation options, for example:
  - (a) An entity shall present, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function based on the entity's activities.
  - (b) Asset and liability items displayed on the statement of financial position shall be classified on a current or non-current basis, except when a presentation based on liquidity provides information that is faithfully representative and is more relevant.
18. Introducing the concept of allowing for different presentation approaches would not change the minimum disclosures required by IPSAS 1 or other required disclosures in individual IPSASs. However, it would enable the preparer to choose from different presentation approaches regarding how the financial statements are structured and where certain disclosures are presented within the financial statements. This increased flexibility would allow an entity to align its financial statement presentation approach with other reports used for PFM purposes.

## Impact of accounting policy choices

19. The preparation of financial statements in accordance with IPSAS includes several accounting policy choices that will likely influence decisions regarding the presentation of information in financial statements. Accounting policy choices mainly relate to the measurement of assets and liabilities, which impact the extent to which the structure and content of the financial statements are required to account for economic flows not arising directly from transactions (i.e., valuation movements).
20. A reporting entity's decisions to measure assets and liabilities on a cost or revaluation basis (when IPSAS permits different options for subsequent measurement) will likely impact an entity's preferences for how information is presented in its financial statements.
21. Table 1 provides examples of accounting policy and presentation choices available in IPSAS (the list is not intended to be exhaustive).

**Table 1**

Accounting policy and presentation choices	
Statement of Financial Position	Classification of assets and liabilities – current and non-current or order of liquidity (IPSAS 1.70)
	Presentation of additional line items and headings in the statement of financial position (IPSAS 1.89 & 1.91)
	Disclosure of further subclassifications in the statement of financial position or notes (IPSAS 1.93)
	When an entity has no share capital, it shall disclose net assets/equity, either on the face of the statement of financial position or in the notes (IPSAS 1.95)

<sup>5</sup> Paragraphs 89, 104 and 127(c) of IPSAS 1.

<b>Statement of Financial Performance</b>	Classification of expenses according to their nature or their function (IPSAS 1.109)
	Presentation of additional line items and headings in the statement of financial performance (IPSAS 1.104)
	Disclosure of further subclassifications in the statement of financial performance or notes (IPSAS 1.106)
<b>Cash Flow Statement</b>	Direct or indirect method for reporting cash flows from operating activities (IPSAS 2.27)
	Entities using the direct method are encouraged to provide a reconciliation of surplus/deficit from cash flows from operating activities (IPSAS 2.29)
	Cash flows from interest and dividends or similar distributions received and paid shall be classified in a consistent manner from period to period as either operating, investing, or financing activities (IPSAS 2.40)
<b>Intangible Assets</b>	Subsequent measurement either at cost or at revalued amount (IPSAS 31.71)
	Option to recognize intangible heritage assets (IPSAS 31.11)
<b>Property, Plant, and Equipment</b>	Subsequent measurement either at cost or at revalued amount (IPSAS 17.43)
	Option to recognize intangible heritage assets (IPSAS 17.9)
<b>Financial Assets and liabilities</b>	Valuation of financial assets at fair value with recognized gains/losses reported either through surplus/deficit or net assets based on their classification (IPSAS 41.43 & 41.44)
	Valuation of financial assets at fair value with recognized gains/losses reported either through surplus/deficit or net assets (IPSAS 41.46)
<b>Borrowing costs</b>	Expense or capitalization model (IPSAS 5.16 & 5.18)
<b>Non-exchange revenue</b>	An entity may, but is not required to, recognize services in-kind as revenue and as an asset (IPSAS 23.98)

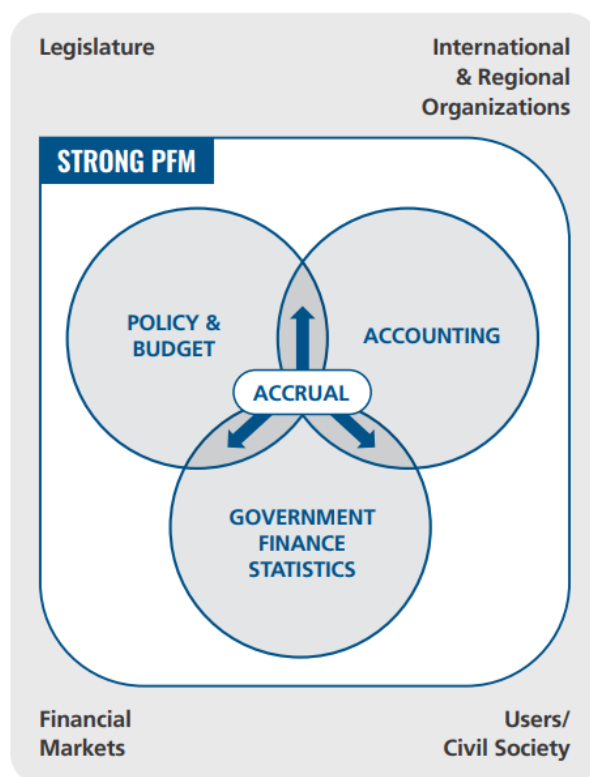
## Reasons for change

22. Many governments and international organizations have undertaken major reforms of their PFM systems to adopt accrual-based financial reporting based on IPSAS. The common reasons cited for this are improvements in transparency, comparability, and usefulness of information in financial statements for accountability and decision-making purposes.
23. The advancement of PFM reforms has also seen significant improvements in budgetary reporting processes and an increased focus on the quality of information used for GFS reporting purposes. These developments have led to a growing call for greater integration between the different financial-related reports used within the public sector for accountability and decision-making purposes. These reports include:
  - (a) financial statements and GFS information (which report ex-post financial information); and
  - (b) budget information and long-term fiscal sustainability reports (which are forward-looking).
24. Stakeholders have highlighted the difficulty in establishing the link between IPSAS-based financial statements and other reports used for budgeting or GFS purposes. This makes it difficult for politicians, policymakers, and other users to understand, recognize, and reconcile key financial performance measures of a similar nature used across different reports.

## Exploring the concept of permitting different presentation approaches

25. A primary objective of the project is to consider enhancements to the principles and requirements, concerning how financial information is presented in financial statements, to support the broader IPSASB objective of strengthening PFM through increased adoption and implementation of accrual IPSAS.
26. The concept of permitting different approaches for presenting information in financial statements will support increased integration of different types of financial information used for strong PFM. This includes information prepared for:
- (a) Public policy and budget purposes;
  - (b) GFS purposes, and
  - (c) Accounting purposes through the presentation of financial statements.
27. As illustrated in Figure 1, there is significant linkage and overlap between the three types of information used within the public sector for accountability and decision-making purposes.

**Figure 1**



28. Staff are currently in the exploratory phase of considering a presentation approach that allows for increased flexibility. For discussion purposes, the approach could work as follows:

- (a) In addition to the standard presentation approach provided for in IPSAS 1, a reporting entity would have the choice to present its financial statements based on three presentation optional approaches:

**Option 1: IFRS-aligned** — may be preferred by jurisdictions with a strong IFRS reporting background (this may be the case when for-profit entities in the jurisdiction apply IFRS).

The IFRS-aligned presentation approach would be similar to the standard IPSAS presentation approach, with differences mainly limited to terminology.<sup>6</sup>

**Option 2: GFS-aligned** — may be preferred by jurisdictions where GFS information is commonly used in other reports for public policy formation, reporting the financial impact of public sector activities, or presenting budget information.

**Option 3: Budget-aligned** — this approach would likely be a mixture of the two previous approaches and may be preferred by jurisdictions where the presentation of budget information strongly reflects local regulations and specific performance measures.

- (b) The GFS and budget-aligned approaches would allow for greater flexibility concerning the structure of the financial statements and where information is located (for example, under the budget-aligned approach, total expenditure could include operating and capital expenditure).<sup>7</sup>
- (c) The entity's decision of which approach to use would be based on:
- (i) The consideration of the jurisdiction's PFM framework — the approach used for presenting budget information and the extent to which GFS information is used;
  - (ii) The consideration of domestic user needs — their familiarity with different presentation approaches (including terminology); and
  - (iii) The entity's accounting policy choices — the extent to which 'other economic flows' are required to be accounted for in the financial statements.
- (d) Regardless of which presentation approach an entity chooses, all recognition, measurement, and minimum disclosure requirements in individual IPSASs must still be complied with. The increased presentation flexibility would be limited to choices about the structure of the financial statements and the location and organization of the required financial information within those financial statements.
- (e) The overarching principles for the selection of information to disclose in the financial statements would also be consistent across all presentation approaches – this includes the principles of materiality and the qualitative characteristics of information included in GPFRs of public sector entities – relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

<sup>6</sup> This will depend on whether the IPSASB introduces into the IPSAS literature an 'other comprehensive income' like approach as an outcome of this project.

<sup>7</sup> GFS defines expenditure as the sum of expenses and the net investment in non-financial assets (i.e., capital expenditure).

29. The development of different financial statement presentation approaches will consider:
- (a) The structure of the financial statements — the components of the financial statements and how they interlink.
  - (b) Where information is located — whether the information is displayed in a specific statement or disclosed through the notes.
  - (c) Categorization of information – how transactions are grouped based on similar characteristics.
  - (d) Use of headings and sub-totals – allows for different sub-totals and performance measures (such as 'operating surplus/deficit') to be displayed on the statements.
  - (e) Reporting key financial performance measures – establishing requirements concerning disclosures of specific measures and their calculation.
  - (f) Terminology used – descriptions of items presented in the financial statements.
30. The proposed approach recognizes that due to the differences between PFM frameworks across different jurisdictions, a single standardized presentation approach may only be suitable for some jurisdictions. In principle, the concept of providing different presentation approaches is being explored as a means of improving integration between different types of financial-related reports used for decision-making and accountability at a national level.

*Benefits*

31. The potential benefits of introducing presentation approach options include:
- (a) Greater flexibility to choose a presentation approach based on local jurisdictional considerations, user needs, and accounting policy choices.
  - (b) Facilitates greater integration of information in financial statements with other financial-related reports used within a jurisdiction's PFM reporting framework.
  - (c) Improved linkages and simplification of reconciliation between different financial-related reports used within a jurisdiction's PFM reporting frameworks.
  - (d) Use of common language and key financial performance measures across different financial-related reports – to support the increased understanding and use of information in financial statements.
  - (e) Consistency in presentation approaches will support the increased use of accrual-based information in financial statements as the source data used for the compilation of GFS and budgetary purposes – which will improve the quality and credibility of data used.

*Downsides*

32. The potential downsides of the new flexible presentation approach mainly relate to concerns about the impact on international, domestic, and entity-level comparability.
33. Many jurisdictions considering the adoption of IPSAS (or in the process of implementing IPSAS) have stressed the importance of comparability of financial statements at both a national and international level. For example, the comparability of financial statements has been cited as particularly important for the European Public Sector Accounting Standards (EPSAS) because they are developed to contribute to the European Commission's ability to compare the financial position of European Union member states.

34. In the United Kingdom, New Zealand, Australia, and other countries, budgets have conventionally been prepared on the same basis as financial statements for many years. In these countries, there is a general understanding that preparing and presenting financial information in budgets and financial statements on the same basis leads to the improved efficiency and effectiveness of the jurisdiction's PFM framework. However, this argument is not as strong for jurisdictions where the preparation of budget information is more closely aligned with GFS reporting guidelines and/or prepared on a cash basis.
35. The varying viewpoints on the nature and significance of comparability are likely to differ across various levels of government and among different types of entities within the public sector.
- (a) At a whole of government level, international comparability may be considered important from a bond market and/or GFS perspective; or
  - (b) At the sector level or within a sector, increased flexibility to present the financial statements in a manner that is linked to the budgeting framework may avoid comparability problems and support integration with the budgetary framework, as well as strengthening accountability and decision-making.
36. As noted above, by including presentational options, we envisage that under an optional presentation approach, IPSAS would continue to provide a 'standard' or 'default' financial statement presentation approach (i.e., format). If a different presentation approach is selected, the entity would need to explain why this approach is seen as providing information that is more faithfully representative and relevant to users.

*Illustrative examples*

37. [Appendix A](#) provides illustrative examples of what the different presentation approaches could look like. These are provided purely to illustrate the concept and have yet to be developed for the purpose of receiving feedback on their structure or content at this time.
38. The illustrative examples focus on the Statement of Financial Performance because this statement has the most scope for different presentation options. The main differences arise from where valuation movements are presented and the treatment of capital expenditure to show total government spending.
39. There is also scope for different presentation approaches for the Statement of Financial Position concerning how assets and liabilities are categorized – for example, current/non-current as used for financial reporting purposes or financial/non-financial as used for GFS purposes.

*Next steps*

40. If the concept of allowing for different presentation approach options in IPSAS is taken forward, additional analysis, stakeholder outreach, and IPSASB deliberation will be required to develop the concept further. This will include the number of approaches that should be provided and the extent of flexibility that should be permitted between the different presentation approaches — while maintaining an appropriate level of presentation consistency for all financial statements prepared in accordance with IPSAS.

**Decision Required**

41. Does the IPSASB agree with the staff [recommendation](#)?

**Appendix A — Illustrative examples of different presentation approaches**

**A1 Illustrative example: GFS-aligned presentation approach**

<b>Government Consolidated Financial Statements (Example)</b>	
<b>Statement of Operations</b>	
<b>Operating revenue (A) — by source</b>	<b>Transactions effecting net worth</b>
Taxes	
Social contributions	
Grants	
Other revenue	
<hr/> Total operating revenue	<b>Transactions in non-financial assets</b>
<b>Operating expenses (B) — by nature</b>	
Compensation of employees	
Use of goods and services	
Consumption of fixed assets	
Social benefits	
....	
<hr/> Total operating expenses	
<hr/> <b>Net/gross operating balance (A) - (B)</b>	
<b>Net/gross investment in non-financial assets (C)</b>	
Fixed assets	<b>Transactions in financial assets and liabilities (financing)</b>
Inventories	
....	
<hr/> <b>Total expenditure (D = B+ C)</b>	<b>Transactions effecting net worth</b>
<hr/> <b>Net lending/(Net borrowing) (A-D)/(F-G)</b>	
<hr/> <b>Transactions in non-financial assets and liabilities</b>	
Net acquisition of financial assets (F)	<b>Transactions effecting net worth</b>
Net incurrence of liabilities (G)	
<hr/> <b>Total transactions in non-financial assets and liabilities</b>	
<b>Other economic flows</b>	<b>Transactions effecting net worth</b>
Fair value gain/(loss) on financial instruments	
Revaluation of land and buildings	
Actuarial gains/(losses)	
<hr/> <b>Total other economic flows</b>	

43. **A2 Illustrative example: IFRS-aligned presentation approach**

<b>Government Consolidated Financial Statements (Example)</b>	
<b>Statement of Comprehensive Revenue and Expense</b>	
<b>Operating Revenue</b>	<b>Operating</b>
Income from tax revenue	
Sale of goods and services	
Levies and commissions received	
Other	
<hr/> Total operating revenue	
<b>Operating Expenses</b>	<b>Operating</b>
Transfer payments and other subsidies	
Wages and salaries	
Depreciation and amortization	
Impairment	
Repairs and maintenance	
Supply of goods or services	
Insurance	
Interest expense	
Other operating expenses	
<hr/> Total operating expenses	
<hr/> <b>Operating surplus/(deficit)</b>	
Income and expenses from investments	<b>Investing</b>
Income and expenses from associates and joint ventures	
Fair value gain/(loss) on financial instruments	
<hr/> <b>Surplus/(deficit) before financing</b>	
Interest expense on borrowings	<b>Financing</b>
Unwinding of discount on provisions	
<hr/> <b>Surplus/(deficit) for the year</b>	
<hr/> <b>Other comprehensive income</b>	<b>Other revaluation gains and losses</b>
<b>Revenue and expenses that will be reclassified to surplus/(deficit)</b>	
Losses on cash flow hedges	
Exchange differences on translating foreign operations	
<b>Revenue and expenses that will not be reclassified to surplus/(deficit)</b>	
Revaluation of land and buildings	
Actuarial gains/(losses)	
<hr/> <b>Total comprehensive revenue/(expense)</b>	

## A2a Illustrative example: Variant of IFRS-aligned presentation approach

The Annual Report of the Department of Culture, Media, and Sport in the United Kingdom, provides a useful example of financial statements applying an IFRS presentation approach, adapted to reflect the public sector context.

The adaptations include changes to the presentation approach to reflect local PFM considerations. Most notably, the reporting of the Department's "parliamentary funding" through the Statement of Changes in Taxpayers' Equity (equivalent to the Statement of Changes in Equity/Net Assets) rather than recognizing this funding as revenue. This presentation approach allows the Consolidated Statement of Comprehensive Net Expenditure (equivalent to the Statement of Financial Performance) to focus on the Department's Net Expenditure.

*Extracts from the Annual Report for the year ended 31 March 2022*

<b>PRIMARY STATEMENTS</b>					
<b>Consolidated Statement of Comprehensive Net Expenditure for the year ended 31 March 2022</b>					
	Note	2021-22		Restated 2020-21	
		Core department	Departmental group	Core department	Departmental group
		£'000	£'000	£'000	£'000
Staff costs	3	137,271	2,320,450	115,854	2,300,840
Grants and subsidies to sponsored bodies	4.1	6,150,150	9,636	6,172,214	10,850
Other grants	4.2	351,233	3,168,228	679,804	3,868,766
Purchase of goods and services	4.3	89,604	565,475	73,602	440,511
Depreciation, amortisation, impairment charges and expected credit loss adjustments	4.4	34,038	435,963	5,777	438,102
Provisions expense	4.5	3,823	17,236	2,586	138,745
Finance cost	4.6	433	58,937	2,649	63,231
Other operating expenditure	4.6	39,547	2,700,881	37,540	2,275,986
<b>Total operating expenditure</b>		<b>6,806,099</b>	<b>9,276,806</b>	<b>7,090,026</b>	<b>9,537,031</b>
Income from contracts with customers	5.1	(44,566)	(558,657)	(44,361)	(474,665)
Current grant income	5.1	(91,122)	(209,886)	(99,169)	(225,963)
Other operating income	5.2	(81,713)	(2,453,432)	(2,977)	(2,135,405)
<b>Total operating income</b>		<b>(217,401)</b>	<b>(3,221,975)</b>	<b>(146,507)</b>	<b>(2,836,033)</b>
<b>Net expenditure for the year</b>		<b>6,588,698</b>	<b>6,054,831</b>	<b>6,943,519</b>	<b>6,700,998</b>
<b>Other comprehensive net expenditure</b>					
Items which will not be reclassified to net operating expenditure:					
Net (gain)/loss on:					
- revaluation of property, plant & equipment, intangible assets, heritage assets and right of use assets		(14,980)	(196,872)	(15,824)	61,409
- pension remeasurements	22.1	-	(1,188,149)	-	233,040
Items which may be reclassified to net operating expenditure:					
Net (gain)/loss on:					
- impairments		-	(306)	-	10,014
- other revaluations including financial assets through OCI		-	(185,900)	-	(354,135)
<b>Total other comprehensive net expenditure</b>		<b>(14,980)</b>	<b>(1,571,227)</b>	<b>(15,824)</b>	<b>(49,672)</b>
<b>Total comprehensive expenditure for the period</b>		<b>6,573,718</b>	<b>4,483,604</b>	<b>6,927,695</b>	<b>6,651,326</b>

**Statement of Changes in Taxpayers' Equity (core department) for the year ended 31 March 2022**

	Note	Core department		
		General fund	Revaluation reserve	Total reserves
		£'000	£'000	£'000
<b>Balance at 1 April 2020</b>		<b>106,276</b>	<b>(13,837)</b>	<b>92,439</b>
Net parliamentary funding - drawn down		(8,479,599)	-	(8,479,599)
Supply payable/(receivable) adjustment	18	1,270,635	-	1,270,635
CFERs payable to the Consolidated Fund	SOPS 4.1	6,795	-	6,795
Net expenditure for the year	SoCNE	6,943,519	-	6,943,519
<b>Non-cash adjustments:</b>				
Auditors' remuneration	4.3	(500)	-	(500)
<b>Movements in reserves:</b>				
Other comprehensive net expenditure	SoCNE	-	(15,824)	(15,824)
<b>Balance at 31 March 2021</b>		<b>(152,874)</b>	<b>(29,661)</b>	<b>(182,535)</b>
Net parliamentary funding - drawn down		(5,597,497)	-	(5,597,497)
Net parliamentary funding - deemed supply		(1,270,635)	-	(1,270,635)
Supply payable/(receivable) adjustment	18	175,745	-	175,745
CFERs payable to the Consolidated Fund	SOPS 4.1	883	-	883
Net expenditure for the year	SoCNE	6,588,698	-	6,588,698
<b>Non-cash adjustments:</b>				
Auditors' remuneration	4.3	(535)	-	(535)
<b>Movements in reserves:</b>				
Other comprehensive net expenditure	SoCNE	-	(14,980)	(14,980)
<b>Balance at 31 March 2022</b>		<b>(256,215)</b>	<b>(44,641)</b>	<b>(300,856)</b>

## A3 Illustrative example: Budget-aligned presentation approach

<b>Government Consolidated Financial Statements (Example)</b>	
<b>Statement of Operations</b>	
<b>Operating Revenue (by source)</b>	<b>Operating revenue and expenses (delivery of public sector programs)</b>
Income taxes	
Other taxes	
Net investment income	
Net income from government business enterprises	
Other income	
<hr/>	
Total operating revenue	
<b>Operating expenses (by function)</b>	
Social benefits	
Health	
Education	
Defense	
General government	
Public order and safety	
Contingency and reserve fund	
<hr/>	
Total operating expense	
<hr/>	
<b>Operating surplus/(deficit) before financing</b>	
<hr/>	
Public debt charges	
<hr/>	
<b>Net operating balance</b>	
<hr/>	
<b>Other economic flows included in the operating result</b>	<b>Other economic flows</b>
Fair value gain/(loss) on financial instruments	
Net write-down of assets (including bad and doubtful debts)	
Net surplus/(deficit) from associates and joint ventures	
<hr/>	
<b>Operating result</b>	
<hr/>	
<b>Other economic flows</b>	
Revaluation of land and buildings	
Actuarial gains/(losses)	
<hr/>	
<b>Comprehensive result - total change in net worth</b>	
<hr/>	
<b>Net operating balance</b>	<b>Net capital expenditure</b>
<hr/>	
<b>Net acquisition of non-financial assets</b>	
Purchase of non-financial assets	
Less sales of non-financial assets	
<hr/>	
<b>Fiscal balance (Net lending/(borrowing))</b>	
<hr/>	
<hr/>	
<hr/>	

## **Draft Consultation Paper — Chapter 1: Project Overview**

### **Question**

1. Does Chapter 1 of the draft Consultation Paper (CP) appropriately reflect the objectives, key drivers, scope, and reasons for conducting the project?

### **Recommendation**

2. Staff recommend that Board members review Chapter 1 of the draft CP (Agenda Item 9.3.1) and provide feedback in response to the question.

### **Background**

3. In September 2023, the IPSASB approved the *Presentation of Financial Statements* [Project Brief](#), which documents the Board's decisions on the project's rationale, objectives, scope, key issues, and the planned development approach.
4. As a first step in developing the CP, staff have drafted Chapter 1 which builds off the approved Project Brief, previous Board deliberations, feedback from the IPSASB's Consultative Advisory Group (CAG), and other inputs from research and scoping activities conducted over the 2019 – 2023 period.

### **Analysis**

5. Chapter 1 emphasizes why the project has been undertaken, including that it is a public sector specific project, but will consider issues related to alignment with IFRS.
6. The development of Chapter 1 will provide the foundation from which technical issues and proposed enhancements to the existing presentation provisions in IPSAS1 will be developed over 2024.
7. Chapter 1 will be amended throughout the project when and as required to reflect the outcome of future IPSASB deliberations on specific issues.
8. The CP is expected to be approved in June 2025. The opening CP chapters have been drafted based on the assumption that the following documents will have been finalized by the CP publication date:
  - (a) IFRS 18, *Presentation and Disclosure in Financial Statements* – expected to be published by the IASB in the first half of 2024.
  - (b) The IPSASB's Strategy and Work Program for 2024-2028 – expected to be approved in September 2024.

### **Decision required**

9. Given the early stages of CP development, we are not seeking approval of Chapter 1 at this time – but are instead seeking Board comments of a substantive nature.
10. Comments of an editorial, drafting, or wording preference nature are encouraged to be shared with staff outside of IPSASB meeting time – by email ([anthonyheffernan@ipsab.org](mailto:anthonyheffernan@ipsab.org)) or through in-person discussion during the meeting break-out sessions.

## **Draft Consultation Paper — Chapter 2: Purpose of Financial Statements**

### **Question**

1. Does the IPSASB agree with how Chapter 2 of the draft Consultation Paper (CP) explains the *purpose of financial statements*?

### **Recommendation**

2. Staff recommend that Board members review Chapter 2 of the draft CP (Agenda Item 9.3.1) and provide feedback in response to the question.

### **Background**

3. Before the CP discusses how existing presentation principles and requirements in IPSAS 1 can be enhanced, it is important to establish an understanding of the purpose of financial statements.

### **Analysis**

4. Chapter 2 on the *Purpose of Financial Statements* is substantially based on existing concepts in the Conceptual Framework. The project will consider if any amendments are required to the existing guidance in IPSAS 1 to explain the purpose of financial statements at the standards level and to ensure consistency with the Conceptual Framework.
5. Chapter 2 includes a discussion on proposed amendments to the standard-level description of the *Purpose of Financial Statements*. Amendments in the illustrative ED will be discussed at a future IPSASB meeting. We will seek Board approval of these amendments after the IASB publishes IFRS 18 *Presentation and Disclosure in Financial Statements*.<sup>8</sup>

### **Decision required**

6. Given the early stages of CP development, we are not seeking approval of Chapter 2 at this time – but are instead seeking Board comments of a substantive nature.
7. Comments of an editorial, drafting, or wording preference nature are encouraged to be shared with staff outside of IPSASB meeting time – by email ([anthonyheffernan@ipsab.org](mailto:anthonyheffernan@ipsab.org)) or through in-person discussion during the meeting break-out sessions.

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<sup>8</sup> The IASB is planning to publish this new IFRS Standard (which will replace IAS 1 *Presentation of Financial Statements*) in the first half of 2024.

## **Presentation of Financial Statements — Breakout Session Discussion**

### **Purpose**

1. This paper provides background and questions for IPSASB members to consider in preparation for breakout group discussions during the December 2023 meeting.
2. The purpose of the breakout session discussion is to enable IPSASB members to provide preliminary feedback on a section of issues to assist staff in continuing to progress the development of the *Presentation of Financial Statements* Consultation Paper (CP) over Q1 2024.

### **Background**

3. One of the key issues identified by the *Presentation of Financial Statements* Project Brief is the consideration of IFRS alignment.
4. The IPSASB policy is to align accrual based IPSAS with IFRS issued by the IASB where appropriate. Accrual based IPSAS aligned with IFRS maintains the requirements, structure, and text of IFRS, unless there is a public sector-specific issue that warrants a departure.<sup>9</sup>
5. Departure from an equivalent IFRS occurs when the requirements or terminology in the IFRS are not appropriate for the public sector or when the inclusion of additional guidance is necessary for specific or more prevalent transactions in the public sector.
6. IPSAS 1, *Presentation of Financial Statements* was issued in May 2000 and was primarily drawn from IAS 1, *Presentation of Financial Statements* issued by the IASB.
7. Since IPSAS 1 was last revised in December 2006, the following IASB developments have not been considered by the IPSASB at the standards level:
  - (a) Amendments to IAS 1 issued in September 2007, which introduced “comprehensive income” and “other comprehensive income” into the presentation of financial statements;
  - (b) Other amendments to IAS 1, including those arising from the completion of the IASB’s *Disclosure Initiative* projects; and
  - (c) The outcomes of the IASB’s *Primary Financial Statements* project, which is expected to result in the issuance of a new IFRS Standard in the first half of 2024.

### **Breakout groups discussions**

8. In Q1 2024, staff plan to commence analysis of the relevant IASB developments to consider the extent to which equivalent changes should be proposed in the new IPSAS to replace IPSAS 1.
9. In advance of this process, Board members, Technical Advisors, and Observers are asked to share views in December on two topics related to IASB developments not yet considered by the IPSASB:
  - (a) [Categories and sub-totals in the performance statement](#); and
  - (b) [Management-defined performance measures](#).

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<sup>9</sup> The development of an IPSAS aligned with an equivalent IFRS is guided by the IPSASB’s policy paper [Process for Reviewing and Modifying IASB Documents](#) (also known as ‘Rules of the Road’).

10. At the December 2023 meeting, IPSASB members, Technical Advisors, and Observers will be allocated to a breakout group to discuss the two topics. Insights from the breakout groups will be reported back in session to the IPSASB and will be considered by the staff and the Project Task Force in Q1 2024.

*Preparation for breakout group discussions*

11. To support the breakout group discussions, [Appendix A](#) provides an overview of the two topics selected for breakout group discussion.

**Questions**

12. Each group will discuss the two topics in [Appendix A](#). While we expect the discussions will be somewhat fluid, key feedback reported back to the IPSASB in session will be based on the following questions:
- (a) Is the IASB development applicable to public sector accounting standards?
  - (b) To what extent would modifications to the IASB requirements be needed to reflect the public sector context?
13. The breakout group discussion isn't intended to be a deep dive into all the technical aspects of the IASB developments. Rather, its purpose is to provide an opportunity for participants to share initial perspectives on any related specific public sector considerations.
14. In determining whether there is a public sector issue that warrants a departure from IFRS, it may be useful to consider the following questions:
- (a) Would applying an IFRS equivalent requirement provide information useful for accountability and decision-making purposes in the public sector?
  - (b) Would applying an IFRS equivalent requirement help achieve the qualitative characteristics of public sector financial reporting — relevance, faithful representation, understandability, timeliness, comparability, and variability?
  - (c) Would the cost of applying the IFRS equivalent requirement exceed the benefits?
  - (d) Does the IFRS requirement adequately address public sector circumstances?
15. The breakout group discussion will also enable Board members, Technical Advisors, and Observers, to provide further comments on:
- (a) Permitting different presentation approaches ([Agenda Item 9.2.1](#)); and
  - (b) The first two chapters of the draft CP ([Agenda Item 9.3.1](#)).

**Recommendation**

16. Staff recommend that Board members consider [Appendix A](#) and be prepared to provide preliminary views in response to the [Questions](#).

## **Appendix A — Overview of IASB developments**

- A1. This appendix provides an overview of the following two recent IASB financial statement presentation developments.
- (a) [Categories and sub-totals in the performance statement](#); and
  - (b) [Management-defined performance measures](#).
- A2. The appendix is not intended to include every significant IFRS alignment issue that will require consideration as part of its *Presentation of Financial Statements* project. Instead, it focuses on two IASB developments for which it would be useful to receive preliminary views from the Board.
- A3. A significant IASB alignment issue identified in the Project Brief is the concept of other comprehensive income (OCI). This will be discussed at future IPSASB meetings.
- A4. The appendix does not include an analysis of public sector considerations or staff views on whether the IASB concepts should be introduced into the IPSASB literature. Staff will complete this analysis for consideration at future IPSASB meetings.

### **Categories and sub-totals in the performance statement**

- A5. IAS 1 issued by the IASB presently mandates the display of only a few specific balances on what it describes as the profit and loss statement.<sup>10</sup> Moreover, there are no explicit requirements regarding the classification of income and expenses or the inclusion of subtotals in the profit and loss statement, except for the overall profit or loss balance itself.
- A6. Users of IFRS financial statements have raised concerns about the diversity in the presentation and calculation of subtotals among entities, especially those operating in the same industry. Entities often present their own subtotals that are described with similar descriptions but are calculated differently. Such diversity makes it difficult for users of financial statements to understand and compare the information entities provide.
- A7. Through its *Primary Financial Statements* project, the IASB has considered how to improve the presentation of information displayed on the profit and loss statement, by proposing requirements for the categorization of income and expenses and the use of specified sub-totals (such as 'operating profit').

### **Current requirements in IPSAS**

- A8. IPSAS 1 currently requires all revenue and expenses in a period to be included in the statement of financial performance, but there are no specific requirements concerning the categorization of this information, and the only sub-total that requires disclosure is the 'surplus or deficit'.
- A9. IPSAS 1 provides additional disclosure requirements concerning the subclassification of revenue and expenses (including the disclosure of specific line items) that may be presented on the face of the statement of financial performance or notes. This includes:
- (a) Total revenue, classified in a manner appropriate to the entity's operations;<sup>11</sup> and

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<sup>10</sup> The IPSASB equivalent statement is the statement of financial performance.

<sup>11</sup> IPSAS 1, paragraph 108

- (b) An analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant.<sup>12</sup>
- A10. The implementation guidance in IPSAS 1 provides an example of the Statement of Financial Performance with no categorization of revenue and expenses under different headings, and only one sub-total – surplus/(deficit) for the period.<sup>13</sup>

<b>Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2</b>		
<b>(Illustrating the Classification of Expenses by Nature)</b>		
(in thousands of currency units)		
	<b>20X2</b>	<b>20X1</b>
<b>Revenue</b>		
Taxes	X	X
Fees, fines, penalties, and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
<b>Total Revenue</b>	<u>X</u>	<u>X</u>
<b>Expenses</b>		
Wages, salaries, and employee benefits	(X)	(X)
Social benefits	(X)	(X)
Grants and other transfer payments	(X)	(X)
Supplies and consumables used	(X)	(X)
Depreciation and amortization expense	(X)	(X)
Impairment of property, plant, and equipment*	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
<b>Total Expenses</b>	<u>(X)</u>	<u>(X)</u>
Share of surplus of associates	<u>X</u>	<u>X</u>
<b>Surplus/(deficit) for the period</b>	<u>(X)</u>	<u>X</u>

- A11. IPSAS allows additional line items, headings, and subtotals to be presented on the face of the statement of financial performance when such presentation is relevant to an understanding of the entity's financial performance. However, a public sector entity currently has significant flexibility in what additional headings and sub-totals it chooses to use.<sup>14</sup>
- A12. The current minimum requirements for the presentation of revenue and expenses on the face of the statement of financial performance in IPSAS 1 are aligned with IAS 1. However, the IASB has proposed improvements through its *Primary Financial Statements* project, with a final standard expected to be published in the first half of 2024.

<sup>12</sup> IPSAS 1, paragraph 109.

<sup>13</sup> IPSAS 1, paragraph IG4

<sup>14</sup> IPSAS 1, paragraph 105.

## IASB proposals

- A13. The IASB has proposed new requirements concerning the categorization of income and expenses and the use of sub-totals in the statement of profit and loss. These have developed based on extended field testing and constituent consultation.
- A14. The IASB proposals require an entity to classify all income and expenses included in the statement of profit or loss into one of five categories.
- Operating;
  - Investing;
  - Financing;
  - Income tax; and
  - Discontinued operations.
- A15. The main outcome of this classification approach is the requirement to display on the statement of profit or loss the following sub-totals:
- Operating profit or loss — comprises all income and expenses classified in the operating category;
  - Profit or loss before financing and income tax — comprises:
    - Operating profit or loss; and
    - All income and expenses classified in the investing category; and
  - Profit or loss
- A16. The proposed 'general model' for the classification of income and expenses across the three main categories – operating, investing, and financing – is summarised in Table 1 below.

<b>Table 1</b>	
<b>Income and expense category</b>	<b>Items included</b>
Operating	<ul style="list-style-type: none"> <li>Income and expenses that are not included in other categories.</li> <li>Includes, but is not limited to, income and expenses from an entity's main business activities.</li> <li>Includes volatile and unusual income and expenses arising from an entity's operation.</li> </ul>
Investing	<ul style="list-style-type: none"> <li>Income and expenses from cash and cash equivalents.</li> <li>Income and expenses from assets that generate a return individually and largely independently of the entity's other resources.               <ul style="list-style-type: none"> <li>Interest income</li> <li>Rental income</li> <li>Impairment losses (and reversals)</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ Fair value gains and losses</li> <li>○ Dividends from equity instruments</li> <li>● Income and expenses from investments in subsidiaries, associates, and joint ventures.</li> </ul>
Financing	<ul style="list-style-type: none"> <li>● Income and expense from changes in the carrying amount of liabilities that arise from transactions that involve only the raising of finance.</li> <li>● Interest income and expense and the effects of changes in interest rates from other liabilities.</li> </ul>

- A17. The proposed new standard includes variations of the 'general model' for the classification of income and expenses based on the main business activity of the reporting entity. If an entity invests or provides finance to customers as its main business activity, then the proposed standard requires more items of income and expenses to be classified as operating. The result is that different industries/sectors will apply different classification models based on the application guidance provided in the standard.
- A18. An illustration of the proposal regarding the classification of income and expenses and the introduction of mandatory sub-totals is provided below.

Statement of profit or loss – general corporate	
Revenue	
Cost of goods sold	
<b>Gross profit</b>	
Other operating income	
Selling expense	
Research and development expenses	
General and administrative expenses	
Goodwill impairment loss	
Other operating expenses	
<b>Operating profit</b>	Operating
Share of the profit from associates and joint ventures	
Gains on disposals of associates and joint ventures	
<b>Profit before financing and income tax</b>	Investing
Interest expense on borrowings and lease liabilities	
Interest expense on pension liabilities	
<b>Profit before tax</b>	Financing
Income tax expense	
<b>Profit for the year</b>	

*Line items illustrate what is classified in each category and do not necessarily denote line items that a company would present. An entity would present line items that provide a useful structured summary of its income and expenses.*

Source: IASB Primary Financial Statements presentation — World Congress of Accountants 2023

- A19. A key consideration during the breakout session is whether a similar categorization approach for the presentation of the statement of financial performance would work for the public sector – i.e., built around three main categories of operating, investing, or financing. Should a different categorization approach be explored to better reflect the public sector context? Are there any specific sub-totals that should be included in the statement of financial performance to reflect the public sector context?

- A20. We note that Agenda Item 9.2.1 discusses the concept of permitting different presentation approaches. Feedback from the breakout group discussions will be used by staff to help develop the 'standard' or 'default' revenue and expense categorization approach in a new standard to replace IPSAS 1 (and the development of minimum sub-totals).

**Management-defined performance measures**

- A21. A significant new concept proposed by the IASB as part of its *Primary Financial Statements* project is the introduction of disclosure requirements concerning the reporting of management-defined performance measures. These are sub-totals of income and expenses not specified by IFRS that are used in public communications to communicate management's view of an aspect of a company's financial performance.

*Current requirements in IPSAS*

- A22. The IPSASB provides guidance on management commentary reported outside the financial statements through Recommended Practice Guideline, *Financial Statement Discussion and Analysis* (RPG 2).
- A23. RPG 2 requires that if information from the financial statements has been adjusted for inclusion in financial statement discussion and analysis, that fact should be disclosed along with the nature and reasons for the adjustments. When financial performance measures are derived from the financial statements, those measures should be reconciled to measures presented in the financial statements that have been prepared in accordance with IPSASs.
- A24. However, IPSAS does not currently have any specific requirements for the disclosure of information about the use of management-defined performance measures in the financial statements themselves.

*IASB proposals*

- A25. The IASB's objective in developing disclosure requirements for management-defined performance measures was to provide insight into management's view of an aspect of the entity's financial performance. The IASB considered whether additional financial statement disclosures should be introduced concerning the reconciliation of management-defined performance measures with IFRS-defined performance measures.
- A26. Users stated that management-defined performance measures can provide useful information. However, users also expressed concerns that information about management-defined performance measures, including how and why they are calculated, can be difficult to find and understand. Because information about these measures is often presented outside the financial statements, users also raised concerns about the quality of the information provided about these measures.
- A27. The IASB considers that disclosing information about management-defined performance measures in financial statements will improve the transparency of measures entities provide and the discipline with which they are prepared. Including such measures in the financial statements will make them subject to the same disclosure requirements regardless of an entity's jurisdiction and likely bring them within the scope of audit.

- A28. The IASB, for financial reporting purposes, has proposed to define management-defined performance measures as subtotals of income and expenses, other than subtotals specified by IFRS, that an entity:
- (a) uses in public communications outside financial statements; and
  - (b) uses to communicate to users of financial statements management's view of an aspect of the entity's financial performance.
- A29. The proposed definition of management-defined performance measures is limited to subtotals of income and expenses based on amounts reported in the financial statements. Other financial measures (such as return on capital employed) and non-financial measures (such as customer retention rate) are not management-defined performance measures.
- A30. Public communications include management commentary, press releases, and investor presentations. For defining management-defined performance measures, public communications exclude oral communications, written transcripts of oral communications, and social media posts.
- A31. Under IASB proposals, companies will be required to disclose information about management performance measures in a single note to the financial statements. In this note, companies would be required to explain why the measures provide useful information, how they are calculated and to provide a reconciliation to the most comparable profit subtotal specified by IFRS Standards.
- A32. An illustrative example of the proposed disclosures is provided below.

**Note X – Management-defined performance measures<sup>15</sup>**

The Group uses three management performance measures as defined in [draft] IFRS X in its financial communications with users of financial statements. The three measures are 'adjusted operating profit', 'adjusted net profit' and 'adjusted equity holders' profit of parent'.

These management performance measures provide management's view of an aspect of the Group's financial performance. They are not specified by IFRS Standards and therefore may not be comparable to apparently similar measures used by other entities. They are provided to complement measures of performance specified by IFRS Standards and are not intended to be a substitute for measures specified by IFRS Standards.

The management performance measures have been calculated by adjusting for the effect of the following items which, in the view of the Group's management, should be considered separately when assessing trends:

- (1) unusual income and expenses—these are not expected to arise for several future annual reporting periods, unlike other items in the statements of financial performance.
- (2) revenue adjustment—the Group has acquired several entities which had recognised contract liabilities. IFRS 3 *Business Combinations* requires a contract liability of an acquired entity to be recognised at fair value on the acquisition date. Because the fair value of the contract liabilities is lower than the contract consideration received, the Group recognised less revenue when it provided its services than would have been recognised by the acquired entities had the acquisition not occurred. In the calculation of its management performance measures, the Group adjusts for the difference between the revenue recognised and the consideration received.

The Group believes that its management performance measures help users of financial statements to assess underlying trends in profitability including the effect of acquisitions on the profitability of the Group.

<sup>15</sup> IFRS ED/2019/7 *General Presentation and Disclosures* (December 2019) – Illustrative Examples

## Agenda Item 9.2.4

- A33. An example of the proposed disclosure of the reconciliation of a management-defined performance measure with the most comparable profit subtotal specified by IFRS Standards is also illustrated below.

<b>Management-defined performance measure (MPM) reconciliation</b>	<b>202X</b>	<b>202X</b>
	<b>\$M</b>	<b>\$M</b>
<b>Operating profit per profit and loss statement</b>	41,270	35,280
Restructuring in Country X (incl. in employee benefits)	5,400	-
Revenue adjustment (inc. in revenue)	6,200	5,500
<b>Adjusted operating profit (MPM)</b>	<b>52,870</b>	<b>40,780</b>

Source: Based on the example used by IASB *Primary Financial Statements* presentation — World Congress of Accountants 2023

- A34. During the breakout session, it would be useful to receive Board feedback on the extent to which management-defined performance measures (non-IPSAS measures) are currently used in the public sector.

**Draft Consultation Paper, *Presentation of Financial Statements***

The draft of the CP completed to date is posted separately for easier readability.