

TFHPSA MEETING IN PARIS (2-3-4 March 2005)

MAIN ISSUES AND SUMMARY OF CONCLUSIONS

The third meeting of the Task Force on Harmonisation of Public Sector Accounting (TFHPSA)¹ was held in Paris on 2-4 March 2005. Two and a half days were dedicated to discussing proposals for the 1993 SNA update (Working group II priority issues), and half a day was dedicated to public sector accounting issues (Working Group I, International Public Sector Accounting Standards, IPSAS). The meeting, which was hosted by the OECD, was attended by 44 persons, of which 17 were representing international or supranational organisations, and 27 were representing 19 countries. The national representations comprised 11 national statistical institutes (or equivalent institutions), 8 ministries of Finance, 1 central bank, 1 university, 1 accounting entity. Countries and international organisations represented were the following:

- Countries: Australia, Argentina, Austria, Belgium, Bulgaria, Canada, Denmark, France, Germany, Hungary, Iceland, Israel, Japan, Mexico, New Zealand, Norway, Switzerland, United Kingdom, United States
- International organisations: IMF, OECD, IPSAS Board, Eurostat, European Central Bank, World Bank.

Lucie Laliberté, chairperson of the Task Force, opened the meeting and reminded the meeting of the work done by the two Working Groups since the last meeting in September 2004, including her presentation to the Advisory Expert Group (AEG) in December 2004. She stressed the need for WG II to take into consideration the developments in the other groups that make recommendations for the SNA update. She also emphasised the fruitful dialogue achieved between statisticians (WG II) and accountants (WG I), as evidenced by two major products of the IPSASB: the Research Report “International Public Sector Accounting Standards (IPSASs) and Statistical Bases of Financial Reporting: An Analysis of Differences and Recommendations for Convergence”, and the draft exposure draft on disclosure of financial information about the general government sector. She announced that the next task force meeting will be organised in September 2005 in Washington DC, and that a final meeting was scheduled in the first months of 2006.

Anne Harrison, editor of the SNA update project, was asked to recall the procedure for the SNA update. This task force, along with seven other groups, is to make recommendations - through issue papers - to the AEG, which has identified 44 issues to be addressed in the update. The ISWGNA has the final word on the change proposals. The next AEG meeting will be held on the week of 18 July 2005, with a further meeting scheduled for December 2005 or January 2006. The draft new SNA must be ready at the end of 2007 with the view to its adoption by the United Nations Statistical Commission in March 2008.

I. Issues of Working Group II (priority issues for the SNA update)

These sessions were chaired by Lucie Laliberté and Jean-Pierre Dupuis.

I.1. Tax revenue and tax credits

The issue paper e-mailed in February, following a questionnaire circulated for consultation of the Working Team C (18 responses received), was supplemented by 12 draft recommendations for the new SNA. These

¹ The first meeting of the Task Force was held in Paris (February 2004) and the second one in Washington DC (September 2004).

recommendations were presented and submitted to the task force by the Working Team leader (J-P Dupuis). The recommendations relate to the three parts of the tax issue: 1. definition, 2. time of recording and accrued amounts, and 3. tax credits, the latter being the most controversial.

1/ Definition of tax revenue: 3 recommendations related to 1. the definition, 2. the case of licences and permits, 3. the case of other fees (borderline issues) were presented to the task force. Consensus was reached on the substance of these recommendations, and proposals for further improvements to the wording were agreed on. However:

- it was noted that the time table of the IPSASB is different from that of the SNA update: the exposure draft on non-exchange revenue (including taxes) is scheduled for issue in 2005 with the final IPSAS scheduled for issue in 2006. However, it was noted that if the amendments to the definition identified at this meeting are accepted and if proposals in respect of recognising taxes on the accruals basis when the underlying taxable event occurs - subject to reliable measurement - are adopted in the SNA review, it is anticipated that IPSASs and statistical bases will continue to converge. It was noted that IPSASB confirms its search for convergence where appropriate.

- the special case of licences/permits not to be recorded as tax but as the purchase of an asset: the discussion showed differences of opinion. The task force agreed to submit the possibility to record these flows as the purchase of an asset to the Canberra II group on the measurement of non-financial assets.

- it was agreed that the proposal to introduce the notion of tax burden and compulsory levies as an indicator in the SNA will not be put forward, as the discussion is not sufficiently mature on the definition and on what such an indicator entails. Some delegates expressed a concern with the political load on this concept.

- it was agreed that a bridge table between the existing nomenclatures of taxes (GFS, Revenue statistics, SNA and ESA table 0900) should be made.

2/ Accrual recording of taxes: the task force reached consensus on 4 recommendations on accrual recording of taxes, especially on the issue of time of recording. Concerning the amounts to be recorded, three methods were considered acceptable: 1. time-adjusted cash, 2. net recording of due amounts through an adjustment using a coefficient (based on information from the immediate past period and current expectations), 3. gross recording of due amounts adjusted to actual receipts through a capital transfer, provided that in all cases due amounts should not be over-assessed. There was a unanimous consensus that the updated SNA should indicate that flows related to tax were not to be recorded as other changes but as transactions. It was also considered necessary to supplement the statement on principles by additional guidelines, for example to deal with the data revision policy.

3/ Recording of tax credits: the 5 recommendations on the recording of tax credits were regarded as more controversial. Two positions were expressed on the case of payable (or non-wastable) tax credits: 1. payable tax credits in general should be recorded on a "gross" basis, not reducing tax, and expensed for the totality of the amount of credit; 2. a compromise based on the OECD and GFS guidelines, supplemented by a strong statement that some social benefits - income substitutes like old age pensions, disability pensions etc. - should always be expensed, called the "split" position (split of the amount of credit).

An indicative vote gave a short majority to the "split" proposal: 9 for the split, 5 for the gross recording, (more than 20 did not participate in the vote).

Follow-up: Task force members are asked to submit written proposals to the team leader before the 22nd of March. Improved draft recommendations will be submitted to the task force for another consultation before the end of March. It is confirmed that this issue will be submitted to the July 2005 AEG for decision.

I.2. Government / public sector / private sector delineation

A two-day meeting of the Working Team A (12 participants) was organised on the eve of the task force meeting. Two papers were presented to the task force reflecting the results of this meeting along with consultations carried since the September 2004 meeting:

- Guidelines for identifying public sector control (based on a prior consultation of the task force), were presented by the Working Team leader, Tulsi Ram. The guidelines, including a list of indicators of control, deal with 1. the control of corporations and 2. the control of non-profit institutions (NPIs). For NPIs, “the degree of financing” is introduced as an indicator of control. The meeting also agreed that the level of risk exposure should be an additional indicator of control. The IPSASB representatives confirmed that in broad terms the notion of control in the paper – used to determine the public / private sector delineation - reflects that used in the IPSASs. However, the notion of “deriving benefit from the controlled entity” is made explicit in the IPSAS definition of control but is encompassed only in commentary in the paper. The Working Team was requested to rework this issue being careful not to create confusion with benefits as used in the SNA context. It was also noted that the principles and intent were the same, but that, in some cases, the wording in respect of factors that should be considered in determining whether control existed differed from that in IPSASs. As a general principle, it was noted that where possible, the same wording and terminology should be used where the intent was the same.

- The definition of Economically Significant Prices (ESP), for the market / non market delineation (classification of a unit in the general government or not), was presented by Graham Jenkinson. Much progress was achieved in clarifying what is involved in using ESP to delineate market from non-market. Further clarifications in this paper will be made on: 1. the definition of sales 2. the content of production costs (costs to include capital services?) 3. definition of ESP in the case of financial intermediaries.

A large agreement was reached on these proposals.

Follow-up: task force members are asked to submit written proposals to the team leader(s) before the 22nd of March. It is confirmed that this issue will be submitted to the July 2005 AEG for decision.

I.3. Contingent liabilities: the case of government guarantees

From the presentation of the Working Team D leader (Reimund Mink), based on a consultation of TFHPSA members made in February (19 answers), and the proposals made by Jeff Golland and other participants during the discussion, it was considered that viewpoints have been maturing and converging, and that the basis for a common orientation now exists encompassing a typology of guarantees and a diversity of recording (in the core accounts or not), according to the different types of guarantees:

1. Guarantees granted to / through specialised agencies on a regular basis (as an example, to export credit insurance agencies), sometimes involving the payment of fees: related flows are to be recorded in the core accounts, including the balance sheets. Other possible examples of this kind were given: guarantees to student loans and to home loans.

2. Guarantees traded on the market, to be recorded as financial derivatives (in the financial account). They are probably less significant for the government sector. An example would be credit default swap bought by export credit agencies to reduce risk of particular countries defaulting.

3. “One-off guarantees” such as those granted by the general government to some public corporations and to large infrastructure projects (often in the context of a public-private partnership). The discussion considered in general two modalities for recording flows incurred in the context of these one-off guarantees:

3.1. To record the flows and stocks of such guarantees as memorandum items (not in the core accounts), if possible mandatory: whilst favoured in the consultation, this modality received criticism. Memorandum items are often not taken seriously, and a “mandatory memo item” makes little sense in a system which is not itself mandatory (except in the European Union)

3.2. To record these types of flows in a new specific account, consistently with the IPSAS / provision approach, but without all the consequences on the other aggregates.

It was noted that developments in financial reporting at the international level appear to be moving towards the recognition of all expected values in respect of provisions including guarantees (rather than the present IPSAS 19 that requires recognition of obligations only when amounts are probable –more likely than not - and can be reliably measured).

The recent proposal of the Eurostat task force on guarantees was also presented: in cases where the guarantee is very likely to be called (criteria were proposed, like the case of public corporations having negative own funds), to reroute the borrowing in the government core accounts. However, this was not discussed during the meeting.

The importance of harmonising the accounting and statistical guidelines was emphasised. It was argued that accounting standards would provide the basic data inputs, in order to achieve relevant and comprehensive recording of these transactions (flows and stocks) in the national accounts.

Follow-up: Written proposals from the task force members are possible before the 22nd of March. R. Mink will draft an issue note taking on board recommendations and contributions of the team, especially from J. Golland, by mid-April 2005. Even though some issues related to the recording of one-off guarantees are still open (flows recorded as memorandum item or in a new specific account), it was considered that this issue could be submitted to the July 2005 AEG for decision.

I.4. Earnings from equity investment

The Working team B leader (Philippe de Rougemont) explained what accruing the earnings of public corporations in government accounts would entail. In the presentation, he covered some of the concerns that were raised at the September 2004 meeting in Washington, as well as in subsequent meetings in Europe. It was confirmed that the issue paper presents two possible approaches: 1. One approach based on the recommendations from the ESA95 Manual on government deficit and debt and from GFSM2001 (more recommendations and clarifications, but no conceptual changes to the SNA), 2. Another approach which extends to the relation between owners (the government) and corporations the SNA present treatment for reinvested earnings (D.43) in the case of foreign direct investment. A questionnaire was circulated at the end of February 2005.

The emphasis put on the D.43 approach to be developed in the updated SNA received sympathy from the accountants' side and from international organisations (as was also the case from the AEG December 2004 meeting). However, in the meeting, the representatives of three national statistical institutes (Canada, France and Germany) expressed clear disagreement to the new approach (D.43) based on the fact that it represents a too important change to SNA concepts, not justified for domestic transactions, not relevant in a context with less and less public corporations, difficult to apply in cases of private corporations or of mixed ownership.

It was considered relevant to finalise both conceptual approaches: 1. solve the pending problem of super-dividends (whether it is a financial or a non-financial transaction) in the 1st approach, 2. review the D.43 approach. The US delegation (led by Brooks Robinson) offered to assist the team leader.

Follow-up: it is necessary to finish the consultation process before deciding if it is relevant – or not - to reorientate the recommendation in the framework of the first approach. It was considered too early to submit the paper for decision to the July 2005 AEG. However, it was agreed that an information paper will be made available. A first draft will be made by the US delegation, circulated to the task force, which will then provide it to the July AEG.

I.5. Privatisation and restructuring units

1. Treatment of privatisation, nationalisation etc.: Anne Harrison's proposal to include in the SNA some recommendations mainly coming from the European works - consistent with the GFSM2001 - was agreed on. Relevant chapters of the ESA95 Manual on government deficit and debt will be disseminated to members of the task force. Recommendations should cover the issues of direct and indirect sales of assets (and their impact on the net borrowing / net lending of general government), securitisation, financial defeasance etc.

Follow-up: J-P Dupuis will take responsibility for this, along with K. Dublin (IMF) and A. Harrison (OECD). It is an issue for decision of the December 2005 AEG.

2. Special purpose entities (SPEs): Sagé DeClerck (IMF) introduced the discussion with a paper aiming at describing and defining the different types of special purpose entities, as well as the measurement challenges: definition of institutional units in the system, of ancillary units, residency criterion etc.

The discussion showed the necessity to keep and clarify as a primary classification criterion the concept of "institutional unit" (in close relation with the criteria on control and ESP). A clarification should be made to the Balance of Payments statisticians about the residency of SPEs established by governments. The task force opinion was that the SPEs that are deemed to be part of government and/or government units should always be treated as part of the government sector: this would entail extending the residency criterion for government units that may be established abroad as SPEs.

Follow-up: S. DeClerck will liaise with European colleagues having elaborated on the Special purpose vehicles (SPVs) issue (R. Mink) and Working team B. The result should be a second draft paper clarifying the classification criteria of SPEs (institutional units, boundary general government/financial corporations). This issue is to be submitted for decision to the December 2005 AEG. However, the clarification with the BoP on the residency criterion should be brought to the July 2005 AEG.

3. Public-private partnerships (PPPs): a point for information was made by John Pitzer (IMF consultant). This is basically an issue discussed by the Canberra Group II. The questionnaire sent in end-February having got only 6 responses, the TFHPSA representatives were asked to respond to the questionnaire during the next weeks of March.

Friday morning issues:

1. Information on the recording of unfunded pension schemes

François Lequiller (OECD) informed that a task force was in creation on this issue, under the responsibility of the IMF and the US Bureau of Economic Analysis. The terms of reference of this task force indicate a two-step approach. The discussions will be held electronically, and a meeting is planned during the Summer 2005 in Washington DC.

2. Annex on the Public Sector²

John Pitzer (on behalf of IMF) presented a draft outline for a new annex to SNA dedicated to the public sector, with the following characteristics: the annex should not duplicate with provisions in the main body, should have the GFS format (revenue/expense, no production account), define 10 or more sub-sectors (including central bank and pension funds), deal with consolidation of the public sector.

François Lequiller made the proposal to include the general government sector. He expressed the opinion that the annex should be a useful tool to the compilers and to the users of SNA statistics (OECD economists are users of SNA data, in particular in the field of public finance). Therefore, the annex should be more balanced, comprising both the general government and the public sector. P. de Rougemont (Eurostat) indicated that the annex reads rather well, but agreed with criticism to the structure of the draft outline, given the importance of the general government accounts in Europe, the legal reference to the ESA95 and to public finance indicators based on the ESA95 (including government revenue and expenditure). Keith Dublin (IMF) underlined that the focus should be on the public sector and on consolidation.

European speakers underlined the necessity to provide more focus on the general government in the annex, a definition of total government revenue and total government expenditure, including the review of similarities and differences with GFSM2001. A request was made to cover the case of supranational organisations.

Some speakers claimed for the maximum convergence of SNA and GFS (only one accrual system), and at least transparency between them. It was asked for the clarification of consolidation rules and methods. It was also argued that, given their specific objectives and to avoid duplication of provisions, GFSM standards should stand-alone, apart from the SNA annex.

The editor of the SNA update suggested to divide the issue in two: a chapter on the general government and on the public sector (like there is a chapter on the rest of the World), and an annex on the relations with other manuals (GFSM2001, ESA95 Manual on government deficit and debt...). Some more time is needed to reflect on the issue.

Working Group II issues: Conclusion

The discussion on the three first issues was considered sufficiently advanced in order to finalise soon with the aim to submit issue papers to the July 2005 AEG for decision.

On the two other issues, more information and discussion are needed. They will be submitted to the December 2005 AEG. Even though the discussion in the task force plenary meeting was very lively and rich, it was emphasised that discussions in smaller groups (like Working Team A meeting before the Task force) are very productive and efficient from a technical point of view.

1. Timetable for the three issues for the July 2005 AEG:

- 22 March 2005: Written comments from the Task force participants to the team leaders
- 15 April 2005: New issue papers from the Working team leaders
- 25-26-27 April 2005: Eurostat task force on SNA review in Luxembourg
- Second half of April 2005: Last round of comments from the Task force members

² Decision was made in the first meeting of the task force and in its mandate to put together the task force recommendations in a unique chapter or annex in the updated SNA.

- 15 May 2005: Finalised issue papers sent to the AEG

2. Timetable for the two issues – and the Annex - for the December 2005 AEG

- 1 September 2005 (at the latest): New issue papers from the Working team leaders
- End September 2005: TFHPSA meeting in Washington DC
- First half of October 2005: Last round of comments from the TFHPSA members
- 10-13 October 2005: OECD working party on national accounts (WPFS and WPNA)
- Mid-October 2005: Finalised issue papers sent to the AEG

II. Issues of Working Group I (IPSAS and statistics)

This session was chaired by Lucie Laliberté and Paul Sutcliffe.

Paul Sutcliffe (WG I chair) opened the session by advising that the matrix comparing accounting standards (IPSAS) against statistical guidelines (GFSM 2001, ESA 95 and SNA 93) was published in January 2005 as a Research Paper of the IPSASB, and that copies were to be made available to the IMF (for distribution to TFHPSA members).

Philippe Adhémar (IPSASB Chair) provided an update of the IPSASB. He indicated that the IPSASB had identified public sector specific issues as its first priority: Exposure Draft (ED) on non-exchange revenues, social policy obligations, budget reporting (a link of financial reporting to the budget), and external assistance. He also noted whether to action projects on heritage assets and public/private partnerships would be considered at the forthcoming IPSASB meeting. The convergences between the IPSAS and the International Financial Reporting Standards (IFRS), and convergence with statistical guidelines were the second and third priorities in the work program.

Paul Sutcliffe then presented the draft ED on disclosure of financial information about the general government sector (GGS) that resulted from the consultation at the September 2004 TFHPSA meeting and subsequent discussion by the IPSASB. The intent of the ED is to align the delineation and disclosure to that used in statistical guidelines.

The group welcomed the draft ED as it represents an important and major first step in linking the two recording systems. Participants expressed support for its general requirements and encouraged the IPSASB to further develop and issue the ED. The ED was discussed in some detail. The major issue identified was the need to revise the definition of the GGS to clearly identify that it represented the “whole of government” other than the public financial corporations (PFC) and public non financial corporations (PFNC) sectors as defined in statistical guidelines (such corporations encompass a broader range than the government business entities of the accounting standards). The group also recommended that the illustrative financial statements classify expenses according to COFOG, and identify the major differences from the statistical treatments.

There was also much discussion on the value at which the investment of “whole of government” in public corporations is to be recorded and it was recommended that the ED make clear that the investment may not be at market value as required under statistical bases. Participants also recommended that the use of the term budget dependant be clarified because the GGS may include some off-budget entities; and that if the IPSAS did not consolidate all levels of government it be noted that the GGS prepared in accordance with the ED may not reflect the GGS in statistical models.

Working Group I issues: Conclusion

The draft Exposure Draft on the general government sector will be discussed at the March 2005 IPSASB meeting in Oslo.

Next meeting of the TFHPSA.

The next task force meeting will be held in September 2005 (now confirmed as September 28-30, 2005) in Washington DC.

The two topics (privatisation and restructuring units, and earnings from equity investment) will be covered along with the Annex / chapter in the updated SNA. The draft ED on Disclosure of General Government Accounts will be reviewed. The question on how the statisticians and the accountants of the public sector should pursue their communication and exchange will also need further discussions.