EUROPEAN COMMISSION
EUROSTAT

Directorate C: National Accounts, Prices and Key Indicators
Task Force EPSAS

EPSAS WG 16/06
Luxembourg, 22 June 2016

EPSAS Working Group

To be held in Paris
on 7-8 July 2016, starting at 09:30,

Item 7 of the Agenda

EPSAS issue paper on narrowing down the options within IPSAS

Paper by Ernst & Young on behalf of Eurostat

- for discussion

Approach for narrowing down of options within IPSAS

22 June 2016

EY
Building a better working world

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1. Objectives and approach of the Issue Paper

The principal objective of this issue paper is to develop a stock-taking and an analysis for narrowing down of options within the suite of IPSAS. In order to be able to narrow down options within the suite of IPSAS, factors like the purpose of an option, its materiality and practicability, as well as comparability are considered.

EY was asked by Eurostat to take into account existing analyses or inventories of options within the suite of IPSAS standards, to carry out an analysis of the importance of each of the most notable options provided and indicate their likely materiality from an EPSAS perspective.

The analysis takes into account:

(a) reflections or analyses on this issue made in at least three Member States, and
(b) requirements under the existing international financial reporting frameworks (IPSAS, IFRS, GFS/ESA, EC rules).

The issue paper will address the following questions:

- What are the most notable options?
- What is the purpose of those options?
- What indications may be stated concerning their likely materiality? How would the existence of these options in IPSAS impair comparability in practice?
- For the more notable IPSAS options, what would be the expected consequences of EPSAS of retaining a single option?
- What would be the consequences of retaining IPSAS options for an interim period, but removing them later in the EPSAS standard-setting or implementation phase?
- Which of those options support convergence between IPSAS, GFS/ESA and EC rules, and which ones would not support convergence?
- What way forward would EY recommend?

Based on the requirements set by Eurostat the following approach for the paper is developed:

The first step to develop an approach for narrowing down of options is to identify the most notable options within the suite of IPSAS. To identify the most notable options within the suite of IPSAS existing analyses or inventories of options are considered.

In a second step, the paper takes into account how Member States dealt with these most notable options within the suite of IPSAS in their process of converting/adapting IPSAS into their national public sector accounting framework. To reach this aim we look at how three Member States make use of the options in their respective public sector accounting frameworks at central/national level.

The third step is to analyse how the most notable options under IPSAS are treated under the other existing international financial reporting frameworks, i.e. IFRS, GFS/ESA and EU Accounting Rules (EAR). Based on this analysis, the most notable options that support convergence between IPSAS and EAR are put forward. Given that the EAR are already an interpretation of IPSAS (i.e. often an already narrowed down approach of IPSAS) they are not considered as appropriate for the assessment of convergence between the accounting frameworks.

In a fourth step the paper discusses for the most notable IPSAS options the expected consequences for EPSAS of retaining a single alternative already in the standard-setting phase. As an alternative to this approach an

analysis of the consequences of retaining IPSAS options for an interim period, but removing alternatives later in the EPSAS standard-setting or implementation phase, is performed.

Based on the results of the analysis performed in the described steps we develop recommendations for an approach of narrowing down of options within the suite of IPSAS. This approach will look at each of the most notable options on an individual basis.

2. Background

IPSAS standards have been criticised during the development process of harmonised European Public Sector Accounting Standards (EPSAS) on the grounds that they offer too many options and that this would compromise in practice the comparability of IPSAS-compliant financial statements.

In 2012 the public consultation on an "Assessment of the suitability of the International Public Sector Accounting Standards for the Member States" showed that "several respondents argued that those countries, regions and organisations that had attempted to implement IPSAS needed to adapt considerably the standards to their own situations."[1] Two respondents also argued that "the use of IPSAS could give false security on key matters, such as comparability and reliability of government finance data of Member States."[2]

The Report from the Commission to the Council and the European Parliament "Towards implementing harmonised public sector accounting standards in Member States, The suitability of IPSAS for the Member States" then underlined that "Currently, the IPSAS standards do not describe sufficiently precisely the accounting practices to be followed, taking into account that some of them offer the possibility of choosing between alternative accounting treatments, which would limit harmonisation in practice […]"[3].

The Commission Staff Working Document from 2013 emphasized that some IPSAS standards would offer options, which may lead to a lack of comparability. In that context the Working Document suggested that "in such cases it would be necessary to remove these options (i.e. for the valuation of assets, the recognition of interests, and the presentation of income statement)."[4] As an example, it was mentioned, that "in some circumstances, IPSASs allow entities to choose between fair value and historic cost as the measurement basis for non-financial assets, notably for the valuation of property, plant and equipment."[5]

In the PwC study "Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards" from 2014, the issue raised by Member States that "IPSAS contain too many options" was analysed.[6] Member States stated that "these [options; added by the authors] should be eliminated to achieve harmonisation within the EU."[7] PwC made the assessment that "this statement is probably exaggerated. The number of accounting policy options available is in fact quite limited."

The PwC study recommended: "The right balance should be searched between the various qualitative characteristics of financial information, e.g. comparability, relevance and reliability, and the constraints on relevant and reliable information, such as the balance between benefit and cost (e.g. keeping options may be necessary to accommodate Member States' current accounting practices). For example, requiring the revaluation model to be used for the subsequent measurement of property, plant and equipment may achieve a comparability objective but this treatment is generally felt to be more costly and is not likely to provide more reliable information than the cost model."[8]

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1 European Commission/Eurostat, Public consultation – Assessment of the suitability of the International Public Sector Accounting Standards for the Member States, Summary of Responses, Luxembourg, 18 December 2012, p. 5.

2 Ibid, p. 11.

3 European Commission, Report from the Commission to the Council and the European Parliament, Towards implementing harmonised public sector accounting standards in Member States, The suitability of IPSAS for the Member States, COM(2013) 114 final, Brussels, 6 March 2013, p. 8.

4 Commission Staff Working Document, Brussels, 6 March 2013, p. 106.

5 Ibid, p. 106 f.

6 PwC, Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards, 2013/S 107-182395, 1 August 2014, p. 120.

7 Ibid.

8 Ibid.

Overall the study suggested that "the use or selection of options will need to be fixed in the context of the EPSAS standard-setting process."[9]

In the context of this issue paper also the IPSASB's "Rules of the Road" for the alignment of IPSAS and GFS needs to be considered. The IPSASB's Policy Paper "Process for Considering GFS Reporting Guidelines during Development of IPSASs" from February 2014 sets out the IPSASB's process for considering Government Finance Statistics (GFS) reporting guidelines during the development of IPSASs. The aim of the IPSASB is to avoid and reduce unnecessary differences between GFS reporting guidelines and IPSASs (see para. 3 of the Policy Paper). The IPSASB's process for GFS alignment "aims to address both existing differences and possible future differences, which could arise through the development of a new IPSAS to address a previously unaddressed financial reporting topic, or revisions to an existing IPSAS." Therefore, the IPSASB considers in the development of new IPSASs and/or the revisions to existing IPSASs the reduction of options with the suite of IPSAS to align with the GFS requirements. Also IPSASB's Consultation Paper (CP), *IPSASs and Government Finance Statistics Reporting Guidelines,* from 2012 outlines differences between IPSASs and GFS Reporting Guidelines as well as choices of IPSAS accounting policy options that would allow for an alignment with GFS.

This issue paper therefore is aimed at contributing to the identification of suitable approaches for narrowing down of options within the suite of IPSASs.

[9] Ibid.

3. Description of accounting guidance available

3.1 Identification of the most notable options within the suite of IPSAS

In defining the scope and content of the issue paper, it was highlighted by Eurostat that the focus should be on the most controversial options with the highest impact. Therefore, options that solely refer to presentation of information in financial statements are considered as not most notable.

To identify the most notable options the following criteria were used:

- **Criterion 1:** Discussions of options in relevant publications on IPSAS/development of EPSAS (for the literature taken into consideration: see the literature section of this paper);
- **Criterion 2:** Solely presentation of information in financial statements (i.e. the option does not address recognition or measurement issues of an accounting transaction)
- **Criterion 3:** Practical relevance of an option
- **Criterion 4:** Materiality of an option (see also Chapter 6 for more details on that criterion).

The assessment for each of the criteria is based on the following categories: High, Moderate, Low. It has to be noted that the assessments are partly subjective in nature. In such situations, professional judgement was applied. The last column then provides an overall assessment and indicates whether an option could be considered as most notable or not. To identify an option as "most notable" the option has to meet at least two criteria assessed "high".

The following table provides an overview of the options identified within the IPSAS set of standards and applies the four selection criteria to those options in order to be able to identify the most notable ones:

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
IPSAS 1.89	"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 within the entity, whichever provides information that is reliable and more relevant."	Moderate	Low	Moderate	Low	No
IPSAS 2.27	"An entity shall report cash flows from operating activities using either: (a) The direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed; or (b) The indirect method, whereby surplus or deficit is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows."	Moderate	Low	Moderate	Low	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
IPSAS 3.15	In making the judgment described in paragraph 12, management may also consider (a) the most recent pronouncements of other standard-setting bodies, and (b) accepted public or private sector practices, but only to the extent that these do not conflict with the sources in paragraph 14.[…]	Low	High (depending on the issue)	Moderate	Moderate	No
IPSAS 5.17	"Borrowing costs shall be recognized as an expense in the period in which they are incurred, except to the extent that they are capitalized in accordance with paragraph 18." IPSAS 5.18: "Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization shall be determined in accordance with this Standard."	Moderate	High	Low	Low	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
IPSAS 6.58 (IPSAS 6 remains applicable until IPSAS 34 and IPSAS 35 are applied or become effective, whichever is earlier (see IPSAS 34.34). According to IPSAS 34.32 and 35.79 IPSAS 34 and IPSAS 35 have to be applied for annual financial statements covering periods beginning on or after January 1, 2017.)	When separate financial statements are prepared, investments in controlled entities, jointly controlled entities, and associates shall be accounted for: (a) Using the equity method as described in IPSAS 7; (b) At cost; or (c) As a financial instrument in accordance with IPSAS 29. The same accounting shall be applied for each category of investments.	Moderate	High	Moderate	High	Yes
IPSAS 8.35 (IPSAS 8 remains applicable until IPSAS 36 is applied or	"A venturer shall recognize its interest in a jointly controlled entity using proportionate consolidation or the alternative method described in paragraph 43."	High	High	Low It has to be considered that with IPSAS 37 the IPSASB acknowledged the	Moderate	Yes

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
becomes effective, whichever is earlier (see IPSAS 36.53). According to IPSAS 36.51 IPSAS 36 has to be applied for annual financial statements covering periods beginning on or after January 1, 2017.)	IPSAS 8.43: “As an alternative to proportionate consolidation described in paragraph 35, a venturer shall recognize its interest in a jointly controlled entity using the equity method.”			IASB’s rationale for removing proportionate consolidation as a method for accounting for interests in joint ventures and agreed that the accounting treatments permitted by IPSAS 37 should be consistent with IFRS 11. Therefore, IPSAS 37 does not provide the option for proportionate consolidation of jointly controlled entities anymore.		
IPSAS 12.34	“The cost of inventories, other than those dealt with in paragraph 32, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.”	Low	High	Moderate	Moderate to low	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
IPSAS 16.39	"With the exception noted in paragraph 43, an entity shall choose as its accounting policy either the fair value model in paragraphs 42-64 or the cost model in paragraph 65, and shall apply that policy to all of its investment property."	Moderate	High	Moderate	Moderate	No
IPSAS 17.2	"An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment, except: […] (b) In respect of heritage assets. However, the disclosure requirements of paragraphs 88, 89, and 92 apply to those heritage assets that are recognized." IPSAS 17 does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant, and equipment. If an entity does	Moderate to High	High	Moderate to High	Moderate	Yes

Source	**IPSAS option**	**Criterion 1: Literature**	**Criterion 2: Presentation**	**Criterion 3: Practical relevance**	**Criterion 4: Materiality**	**Most notable option? (yes/no)**
	recognize heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard (see IPSAS 17.9).					
IPSAS 17.42	"An entity shall choose either the cost model in paragraph 43 or the revaluation model in paragraph 44 as its accounting policy, and shall apply that policy to an entire class of property, plant, and equipment."	High	High	High	High	Yes
IPSAS 19.64	According to IPSAS 19.44 a provision shall be measured at the best estimate of the expenditure required to settle the present obligation at the reporting date. Therefore, expenses and revenues relating to a provision shall generally not be offset. Option: "In the statement of financial performance, the expense relating to a provision may be presented net of the amount recognized for a reimbursement."	Low	Low	Moderate	Moderate to Low	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
IPSAS 20.32	According to IPSAS 20.27 certain disclosures regarding related party transactions need to be provided. Option: "Items of a similar nature may be disclosed in aggregate, except when separate disclosure is necessary to provide relevant and reliable information for decision-making and accountability purposes."	Low	Low	Moderate	Low	No
IPSAS 23.98	"An entity may, but is not required to, recognize services in-kind as revenue and as an asset."	Low	Low	Moderate to Low	Low	No
IPSAS 24.14	"Subject to the requirements of paragraph 21, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts, either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSASs."(…) "An entity shall present an	Low	Low	Moderate	Low	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
IPSAS 24.29	explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors: (a) By way of note disclosure in the financial statements; or (b) In a report issued before, at the same time as, or in conjunction with, the financial statements, and shall include a cross reference to the report in the notes to the financial statements."	Low	Low	Moderate	Low	No
IPSAS 28.3	In addition to (i) and (ii) above, an entity may apply this Standard to insurance contracts which involve the transfer of financial risk.	Low	High	Low	Moderate	No
IPSAS 29.2	Notwithstanding (i) above, an entity may apply this Standard to other insurance contracts which involve the transfer of financial risk.	Low	High	Low	Moderate	No
IPSAS 29.10	Definition of a financial asset or financial liability at fair value through surplus or deficit: "Upon initial recognition it [the financial asset or financial liability] is	Low	High	Low It has to be noted that the fair value option for	Moderate to Low	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
	designated by the entity as at fair value through surplus or deficit." This is the so-called fair value-option. The classification of a financial instrument at fair value through surplus or deficit implies that changes in fair value need to be recognized directly in surplus or deficit.			the measurement of financial instruments is rather restricted (see IPSAS 29.10).		
IPSAS 29.53	"An entity: […] (c) May, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through surplus or deficit category if the requirements in paragraph 55 or 57 are met."	Low	High	Low	Moderate to Low	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
IPSAS 31.3	"This Standard shall be applied in accounting for intangible assets, except: […] (k) In respect of intangible heritage assets. However, the disclosure requirements of paragraphs 115–127 apply to those heritage assets that are recognized." IPSAS 31 does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard (see IPSAS 31.11).	Moderate	High	Moderate	Low	No
IPSAS 31.71	"An entity shall choose either the cost model in paragraph 73 or the revaluation model in paragraph 74 as its accounting policy. If an intangible asset is accounted for using the revaluation	Moderate to High	High	Moderate	Moderate to High	Yes

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
	model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets."					
IPSAS 34.12 This option corresponds to the option in IPSAS 6.58.	When an entity prepares separate financial statements, it shall account for similar investments in controlled entities, joint ventures and associates either: (a) At cost; (b) In accordance with IPSAS 29; or (c) Using the equity method as described in IPSAS 36. Please also note the exceptions for those alternatives under IPSAS 34.13. and IPSAS 34.14.	Moderate	High	Moderate	High	Yes
IPSAS 35.46	"The financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated financial statements shall be prepared	Low	Moderate	Moderate	Moderate	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
	as at the same reporting date. When the end of the reporting period of the controlling entity is different from that of a controlled entity, the controlling entity either: (a) Obtains, for consolidation purposes, additional financial information as of the same date as the financial statements of the controlling entity; or (b) Uses the most recent financial statements of the controlled entity adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements."					
IPSAS 36.36	"The most recent available financial statements of the associate or joint venture are used by the entity in applying the equity method. When the end of the reporting period of the entity is different from that of an associate or a joint venture the entity either:	Low	Moderate	Moderate	Moderate	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
	(a) Obtains, for the purpose of applying the equity method, additional financial information as of the same date as the financial statements of the entity; or (b) Uses the most recent financial statements of the associate or joint venture adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the entity's financial statements."					
IPSAS 37.29	"In its separate financial statements, a joint operator or joint venturer shall account for its interest in: (a) A joint operation in accordance with paragraphs 23–25; and (b) A joint venture in accordance with paragraph 12 of IPSAS 34." Therefore, a joint venture could also be accounted for in an entity's separate financial statements (a) at cost; (b) in accordance with	Low	High	Moderate to low	Moderate to low	No

Source	IPSAS option	Criterion 1: Literature	Criterion 2: Presentation	Criterion 3: Practical relevance	Criterion 4: Materiality	Most notable option? (yes/no)
IPSAS 37.30	IPSAS 29; or (c) using the equity method as described in IPSAS 36." "In its separate financial statements, a party that participates in, but does not have joint control of, a joint arrangement shall account for its interest in: (a) A joint operation in accordance with paragraph 26; and (b) A joint venture in accordance with IPSAS 29, unless the entity has significant influence over the joint venture, in which case it shall apply paragraph 12 of IPSAS 34." Therefore, a party that participates in, but does not have joint control of a joint arrangement, could also be accounted for in an entity's separate financial statements (a) at cost; (b) in accordance with IPSAS 29; or (c) using the equity method as described in IPSAS 36.	Low	High	Moderate to low	Moderate to low	No

3.2 Analysis of most notable options in IPSAS and other relevant accounting frameworks

The following table provides an analysis how other accounting/statistical reporting frameworks such as IFRS, the EAR and GFS/ESA treat the most notable options provided by the IPSAS framework. The options as provided by IPSAS were taken as a starting point.

The aim of this analysis is to identify alternatives within IPSAS options that would allow for convergence with other relevant accounting frameworks. Therefore the last column of the table provides an assessment which alternative of an option supports convergence between the accounting frameworks analysed.[10] Given that the EAR are already an interpretation of IPSAS (i.e. often an already narrowed down approach of IPSAS) they are not considered as appropriate for the assessment of convergence between the accounting frameworks. Therefore, only IPSAS and GFS/EA will be assessed in our analysis table for convergence.

We have used the following versions of the accounting frameworks and documents considered:

IPSAS	International Public Sector Accounting Standards Board, Handbook of International Public Sector Accounting Pronouncements, 2015 Edition, Volume I and II (published by the International Federation of Accountants)
IFRS	International Accounting Standards Board, International Financial Reporting Standards, applicable for annual periods beginning on 1 January 2015 (where relevant we have referred to older versions of the respective IAS/IFRS)[11]
EU Accounting Rules (EAR)	European Commission, EU Accounting Rules, applicable for annual financial statements covering periods beginning on or after 1 January 2015
GFS	International Monetary Fund, Government Finance Statistics Manual 2014, Washington, D.C. 2014
ESA	European Commission/Eurostat, European system of accounts, ESA 2010, Luxembourg 2013
MGDD	Eurostat, Manuals on Government Deficit and Debt, Implementation of ESA 2010, 2016 edition, Luxembourg 2016

10 This refers to Eurostat's question of which of those options support convergence between IPSAS, GFS/ESA and EC rules, and which ones would not support convergence.

11 IFRS were assessed as published by the IASB but not as endorsed in the European Union.

Source	IPSAS	IFRS	EU Accounting Rules (EAR)	GFS/ ESA	Alternative that supports convergence between IPSAS and GFS/ESA
IPSAS 6.58 (IPSAS 6 remains applicable until IPSAS 34 and IPSAS 35 are applied or become effective, whichever is earlier (see IPSAS 34.34). According to IPSAS 34.32 and 35.79 IPSAS 34 and IPSAS 35 have to be applied for annual financial statements covering periods beginning on or after January 1, 2017.)	When separate financial statements are prepared, investments in controlled entities, jointly controlled entities, and associates shall be accounted for: (a) Using the equity method as described in IPSAS 7; (b) At cost; or (c) As a financial instrument in accordance with IPSAS 29. The same accounting shall be applied for each category of investments.	IAS 27.10: "When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either: (a) at cost, or (b) in accordance with IFRS 9. The entity shall apply the same accounting for each category of investments."	Nothing is provided in the EU Accounting Rules on that issue.	Generally, stock positions of assets should be valued at market value (see GFSM 2014, para. 3.113). In principle, all financial assets should be valued at market value (see GFSM 2014, para. 7.122). When actual market values of equity are not available, an estimate is required (see GFSM 2014, para. 7.173). Based on this, also the use of the net book value is possible. The ESA values balance sheet items at market value, except for three specific instruments: currency and deposits (AF.2), loans (AF.4) and other accounts receivable/payable (AF.8) (see ESA 2010, para. 20.149 ff.).	The approach to measure investments in controlled entities, jointly controlled entities, and associates at market value would support convergence between IPSAS and GFS/ESA as this corresponds to the approach in IPSAS 6 to account for such entities as a financial instrument in accordance with IPSAS 29. When market values are not available, also the equity method would allow convergence.
IPSAS 8.35 (IPSAS 8 remains applicable until IPSAS 36 is	"A venturer shall recognize its interest in a jointly controlled entity using proportionate consolidation or the alternative method	IFRS 11.24: "A joint venturer shall recognise its interest in a joint venture as an investment and shall account	EAR 1 Section 5.3.3 1): "In their consolidated financial statements, the European Union should report their interest in a	As interest in a jointly controlled entity is classified as financial assets it should be valued at market value as well (see GFSM 2014,	Neither proportionate consolidation nor the use of the equity method would support convergence. Only when market values are not

Source	IPSAS	IFRS	EU Accounting Rules (EAR)	GFS/ ESA	Alternative that supports convergence between IPSAS and GFS/ESA
applied or becomes effective, whichever is earlier (see IPSAS 36.53). According to IPSAS 36.51 IPSAS 36 has to be applied for annual financial statements covering periods beginning on or after January 1, 2017.)	described in paragraph 43." IPSAS 8.43: "As an alternative to proportionate consolidation described in paragraph 35, a venturer shall recognize its interest in a jointly controlled entity using the equity method." It has to be considered that with IPSAS 37 the IPSASB acknowledged the IASB's rationale for removing proportionate consolidation as a method for accounting for interests in joint ventures and agreed that the accounting treatments permitted by IPSAS 37 should be consistent with IFRS 11. Therefore, IPSAS 37 does not provide the option for proportionate consolidation of jointly controlled entities anymore.	for that investment using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures unless the entity is exempted from applying the equity method as specified in that standard."	jointly controlled entity using the equity method." From 1 January 2016 EAR 1 will be superseded by EAR 2. Also under the new EAR 2 only the equity method will be allowed for joint ventures.	para. 7.122). Given that when actual market values of equity are not available, an estimate is required, also the use of the net book value (equity method) is possible (see GFSM 2014, para. 7.173).	available, the use of the equity method for the measurement of a venturer's interest in a jointly controlled entity would support convergence.
IPSAS 17.2	"An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in	IAS 16 does not contain any provisions on accounting for heritage assets.	Nothing is provided in the EU Accounting Rules on that issue.	According to ESA 7.49 valuables such as works of art, antiques, jewellery or precious stones should be recognized and generally be	The recognition of some heritage assets (e.g. works of art, antiques, jewellery or precious stones) would support convergence across

Source	IPSAS	IFRS	EU Accounting Rules (EAR)	GFS/ ESA	Alternative that supports convergence between IPSAS and GFS/ESA
	accounting for property, plant, and equipment, except: […] (b) In respect of heritage assets. However, the disclosure requirements of paragraphs 88, 89, and 92 apply to those heritage assets that are recognized." IPSAS 17 does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant, and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard (see IPSAS 17.9).			valued at current prices (see ESA 2010, para. 7.49).	the accounting frameworks.
IPSAS 17.42	"An entity shall choose either the cost model in paragraph 43 or the revaluation model in paragraph 44 as its accounting policy, and shall	IAS 16.29: "An entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its	EAR 7 Section 5.4): "After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any	Generally, stock positions of assets should be valued at market value (see GFSM 2014, para. 3.113). Fixed assets should in principle be	Given the conceptual differences between the revaluation model under IPSAS and the market value-approach under

Source	IPSAS	IFRS	EU Accounting Rules (EAR)	GFS/ ESA	Alternative that supports convergence between IPSAS and GFS/ESA
	apply that policy to an entire class of property, plant, and equipment." It has to be noted that the revalued amount of an item of property, plant and equipment, according to the revaluation model, is the fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.	accounting policy and shall apply that policy to an entire class of property, plant and equipment."	accumulated depreciation and any accumulated impairment losses."	valued at their current market prices on the balance sheet date (see GFSM 2014, para. 7.78). In general, in the absence of observable market prices for used assets, the written-down replacement cost is used as a proxy for the current market value of fixed assets (see GFSM 7.36). Land is valued at its current price that would be payable by a new owner, excluding the costs of ownership transfer (see GFSM 7.94). According to ESA, assets are valued at market prices at balance sheet date (see ESA 2010, para. 7.33). Under ESA, fixed assets are recorded at market prices if possible (or basic prices in the case of own-account production of new assets) or, if not possible, then at purchasers' prices at acquisition reduced by the accumulated consumption of fixed capital (see ESA 2010, para. 7.42). Land is	GFS/ESA none of the IPSAS options would support convergence between IPSAS and GFS/ESA.

Source	IPSAS	IFRS	EU Accounting Rules (EAR)	GFS/ ESA	Alternative that supports convergence between IPSAS and GFS/ESA
				generally valued at its current market price (see ESA 2010, para. 7.50).	
IPSAS 31.71	"An entity shall choose either the cost model in paragraph 73 or the revaluation model in paragraph 74 as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets." It has to be noted that the revalued amount of an intangible asset, according to the revaluation model, is the fair value at the date of the revaluation, less any subsequent accumulated amortization.	IAS 38.72: "An entity shall choose either the cost model in paragraph 74 or the revaluation model in paragraph 75 as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets."	EAR 6 Section 5.5 1): "After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses."	Intangible assets fall under GFS in the category of "intangible nonproduced assets" (see GFSM 2014, para. 7.104). Intangible nonproduced assets have two further sub-categories, i.e. "contracts, leases, and licenses" and "goodwill and marketing assets". Where possible, contracts, leases, and licenses, should be valued at current prices when they are actually traded on markets. Otherwise, it may be necessary to use estimates of the present value of expected future returns. Goodwill and marketing assets are typically valued at their initial acquisition costs minus allowances for amortization (see GFSM 2014, para. 7.104). Unser ESA 2010, originals of intellectual property products, such as computer	Given the conceptual differences between the revaluation model under IPSAS and the market value-approach under GFS/ESA none of the IPSAS options would support convergence between IPSAS and GFS/ESA.

Source	IPSAS	IFRS	EU Accounting Rules (EAR)	GFS/ ESA	Alternative that supports convergence between IPSAS and GFS/ESA
				software and entertainment, literary or artistic originals should be valued at the acquisition price when traded on markets. The initial value is estimated by summing their costs of production, appropriately revalued to the prices of the current period. If it is not possible to establish the value by this method, the present value of expected future receipts arising from using the asset is estimated (see ESA 2010, para. 7.44). Contracts, leases and licences can be valued by taking market information from the transfers of the instruments conferring the rights, or estimated as the present value of expected future returns at the balance sheet date compared to the situation when the legal agreement starts (see ESA 2010, para. 7.55).	
IPSAS 34.12	When an entity prepares separate financial statements, it shall account	IAS 27.10: When an entity prepares separate financial statements, it shall account	Nothing is provided in the EU Accounting Rules on that issue.	Generally, stock positions of assets should be valued at market value (see GFSM	The approach to measure investments in controlled entities, jointly controlled

Source	**IPSAS**	**IFRS**	**EU Accounting Rules (EAR)**	**GFS/ ESA**	**Alternative that supports convergence between IPSAS and GFS/ESA**
	for similar investments in controlled entities, joint ventures and associates either: (a) At cost; (b) In accordance with IPSAS 29; or (c) Using the equity method as described in IPSAS 36. Please also note the exceptions for those options under IPSAS 34.13 and IPSAS 34.14.	for investments in subsidiaries, joint ventures and associates either: (a) at cost, or (b) in accordance with IFRS 9. The entity shall apply the same accounting for each category of investments.		2014, para. 3.113). In principle, all financial assets should be valued at market value (see GFSM 2014, para. 7.122). When actual market values of equity are not available, an estimate is required (see GFSM 2014, para. 7.173). Based on this, also the use of the net book value is possible. The ESA values balance sheet items at market value, except for three specific instruments: currency and deposits (AF.2), loans (AF.4) and other accounts receivable/payable (AF.8) (see ESA 2010, para. 20.149 ff.). The exceptions do not apply here.	entities, and associates at market value would support convergence between IPSAS and GFS/ESA as this corresponds to the approach in IPSAS 34 to account for such entities as a financial instrument in accordance with IPSAS 29. When market values are not available, also the equity method would allow convergence.

In general the analysis of the accounting frameworks has shown that GFS/ESA generally requires market-value based approaches and only when market value-based approaches are not available then other approaches are permitted. Therefore, the analysis of convergence of IPSAS and GFS/ESA generally suggests the use of alternatives within options that support market value-based approaches. Also the conceptual differences between the revaluation model under IPSAS[12] and the market value-approach under GFS/ESA impairs convergence between IPSAS and GFS/ESA.

For the most notable options the results of the accounting frameworks analysis including a consideration of the EAR can be summarized as follows:

Option	**Results of analysis**
Option in IPSAS 6.58 and IPSAS 34.12: Measurement of investments in controlled entities, jointly controlled entities, and associates in separate financial statements using cost, the equity method or IPSAS 29.	The approach to measure investments in controlled entities, jointly controlled entities, and associates at market value would support convergence between IPSAS and GFS/ESA as this corresponds to the approach in IPSAS 6 to account for such entities as a financial instrument in accordance with IPSAS 29. As nothing is provided in the EAR on that issue, there are no limitations with regard to convergence.
Option in IPSAS 8.35: Measurement of jointly controlled entities using proportionate consolidation or the equity method.	Neither proportionate consolidation nor the use of the equity method would support convergence between IPSAS and GFS/ESA. Only when market values are not available, the use of the equity method for the measurement of a venturer’s interest in a jointly controlled entity would support convergence. As the EAR requires the use of the equity method no convergence between IPSAS, EAR and GFS/ESA would be achieved. Only when market values are not available, the use of the equity method would support convergence.
IPSAS 17.2: Choice to recognize heritage assets in an entity’s financial statements.	The recognition of some heritage assets (e.g. works of art, antiques, jewellery or precious stones) would support convergence between IPSAS and GFS/ESA. As nothing is provided in the EAR on that issue, there are no limitations with regard to convergence.
Option in IPSAS 17.42: Subsequent measurement of property, plant and equipment using either the cost model or revaluation model.	Given the conceptual differences between the revaluation model under IPSAS and the market value-approach under GFS/ESA none of the IPSAS options support convergence between IPSAS and GFS/ESA. As the EAR require the use of the cost model, they further limit convergence between IPSAS, EAR and GFS/ESA.
IPSAS 31.71: Subsequent measurement of intangible assets using either the cost model or revaluation model.	Given the conceptual differences between the revaluation model under IPSAS and the market value-approach under GFS/ESA none of the IPSAS options support convergence between IPSAS and GFS/ESA. As the EAR require the use of the cost model, they further limit convergence between IPSAS, EAR and GFS/ESA.

[12] For example for PPE, the revalued amount of an item of property, plant and equipment, is the fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

3.3 Country Analysis of most notable options

This table provides an overview on how the most notable options are used in three EU Member States (France, Lithuania and UK). The selection of the countries was based on the fact that those Member States used the IPSAS/IFRS accounting framework as a basis for their national public sector accounting laws and/or regulations.

For the country analysis the following accounting frameworks were used:

France:	Central Government Accounting Standards, published by Ministère des Finances et des Comptes Publics, January 2016
Lithuania:	PSAFRSPSAFRS, Lithuanian Public Sector Accounting and Financial Reporting Standards, Ministry of Finance of the Republic of Lithuania, as of 1 April 2016
United Kingdom:	The Financial Reporting Manual 2015-16 (FReM), published by HM Treasury, December 2015

Option	France	Lithuania	United Kingdom
IPSAS 6.58 and IPSAS 34.12: Measurement of investments in controlled entities, jointly controlled entities, and associates in separate financial statements using cost, the equity method or IPSAS 29.	CGAS 7 'Financial Assets' does not provide options with regard to the measurement of controlled entities, jointly controlled entities, and associates in the separate financial statements. *CGAS 7, Section II.1.2* The CGASs cover the separate financial statements of the Central Government (the Central Government currently does not prepare consolidated financial statements). *CGAS 7, Section 1.1*: Central Government **equity investments** are the interests that the Central Government holds in other entities, which may or may not be represented by equity instruments and which create long-term relationships with the other entities.	In general, Lithuanian accounting provisions on investments accounting are IPSAS compliant. However, the principles are described in several separate standards. PSAFRS 15 "Consolidated financial statements and investments in controlled entities": When separate financial statements of a controlling entity are prepared investments in consolidated entities shall be accounted for using the cost method (the cost of entities shall be calculated as described in the provisions of PSAFRS 14 "Combinations and Investments in Associates"), and investments in controlled non-public sector entities shall be accounted for using the equity method. **According to PSAFRS 14 "Combinations and investments in associates"** investments	In general IAS 27, Separate Financial Statements applies. However, the presentation of separate, non-consolidated financial statements will only be applied in full if the investment has not been designated for consolidation by order of the relevant authority under statutory instrument. In such a case entities use either cost or IAS 39 for the measurement of controlled entities, jointly controlled entities, and associates.

Option	France	Lithuania	United Kingdom
	CGAS 7, Section 1.2: Equity investments fall into two categories: (i) equity investments in entities controlled by the Central Government; (ii) equity investments in entities that are not controlled by the Central Government. *CGAS 7, Section 3.1.2:* All entities **controlled** by the Central Government (exclusively or jointly) are measured using the equity method. Equity investments in **uncontrolled** entities are measured at acquisition cost.	where the public sector entity has significant influence over the acquired entity after the acquisition are accounted in separate financials statements using the equity method. **Based on PSAFRS 17 "Financial assets and financial liabilities"**, investments when the public sector entity does not have significant influence over the acquired entity (control less than 20% and other criteria for significant influence are not satisfied) after the acquisition are accounted as a financial instruments at the fair value method. According to PSAFRS 14 "Combinations and investments in associates" and PSAFRS15 "Consolidated financial statements and investments in controlled entities" the following applies: If the jointly controlled entity is not in scope of the public sector, then PSAFRS 14 is applied, and the investment is accounted under the equity method. If the jointly controlled entity is a public sector entity (i.e. in scope of consolidation), PSAFRS 15 is applied, and the investment is accounted at cost.	
IPSAS 8.35: Measurement of jointly controlled entities using proportionate consolidation or the equity method.	As Central Government does not prepare consolidated financial statements there are no provisions for the measurement of jointly controlled entities in consolidated financial statements in the CGAS.	**PSAFRS15 "Consolidated financial statements and investments in controlled entities":** „When a consolidated entity is under common control of several public sector entities and none of them exercise a control separately and all hold the same number of votes in a general meeting of stakeholders of consolidated entity, financial statements of a consolidated entity shall be included into consolidated financial statement of that public sector entity,	In general IFRS 11 Joint Arrangements applies. According to IFRS 11.24 a joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with IAS 28 (unless the entity is exempted from applying the equity method as specified in that standard). This approach supports convergence between IPSAS, EAR and GFS/ESA.

Option	France	Lithuania	United Kingdom
		which exercises rights and fulfils duties of a state as a stakeholder of an entity, in case it exists. When all public sector entities have an equal share of voting rights over a consolidated entity, public sector entities should make a decision in which consolidated financial statements shall a consolidated entity be included. A public sector entity which does not consolidate financial statements of an entity under common control records the investment in such entity at cost in its separate and consolidated financial statements of the public sector entity group".	
IPSAS 17.2: Choice to recognize heritage assets in an entity's financial statements.	*CGAS 17, Section 1 "Definition":* Heritage assets as defined in CGAS 17 and controlled by the Central Government need to be recognized. CGAS 17 defines immovable and movable heritage assets. Measurement upon initial recognition (subsequent measurement as well) is at acquisition cost or at a value provided by experts, except for assets prior to January 1, 2013 that are recognized for a symbolic value. Subsequent expenses are recognised as assets where appropriate (overhaul).	PSAFRS 12 "Property, plant and equipment": Instead of heritage assets, PSAFRS 12 uses the notion of "cultural objects". Similarly to France, the standard defines immovable and movable cultural objects. Cultural objects that fulfills the definition immovable and movable cultural objects need to be recognized.	In principle, heritage assets should be accounted for in the same way as any other asset under IAS 16. There are, however, certain characteristics associated with heritage assets that give rise to the need for interpretation of IAS 16.
IPSAS 17.42: Subsequent measurement of property, plant and equipment using either the cost model or revaluation model.	*CGAS 6, Section 2.2.1 'General Principle':* In the case of depreciable assets, the reporting date value is the initial value (= acquisition cost) after deducting accumulated depreciation and, where applicable, impairment (cost method). However, there are some exceptions from this general rule:	PSAFRS 12 "Property, plant and equipment": Subsequent to initial recognition, property, plant and equipment except for land, immovable and movable cultural objects is presented in the financial statements at cost less any accumulated depreciation and impairment losses (cost method). Land and cultural objects are presented in the	IAS 16 is adapted to specify the following valuation bases for property, plant and equipment: - Assets which are held for their service potential (i.e. operational assets) and are in use should be measured at current value in existing use. For non-specialised assets current value in existing use should be interpreted as market

Option	France	Lithuania	United Kingdom
	► Residential property and offices and the land on which they are built are measured at fair value at the reporting date ► Properties specific to the Ministry of Defence that form a class of their own are measured at a token or non-revisable fixed amount on the reporting date. These are neither depreciable nor subject to impairment. ► Prisons, roads, motorways, dams and related structures are measured at depreciated replacement cost at the reporting date. ► Other infrastructures, military equipment and other tangible assets of Central Government are measured at amortised cost at the reporting date, with the exception of military equipment withdrawn from active service, not for sale, intended for training purposes on the ground, or for museums, static displays, cannibalisation or destruction, which is measured at a token amount.	financial statements at the fair value subsequent to the initial recognition (fair value method).	value for existing use (defined as Existing Use Value (EUV)). - For specialised assets current value in existing use should be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. - Assets which were most recently held for their service potential but are surplus should be valued at current value in existing use as above if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market then the surplus asset should be valued at fair value using IFRS 13. - Assets which are not held for their service potential should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale. Where such assets are surplus and do not fall within the scope of IFRS 5 or IAS 40, they should be valued at fair value applying IFRS13. As a consequence of these provisions, entities covered by the FReM do not have the option given in IAS 16 to adopt the cost model.
IPSAS 31.71: Subsequent measurement of intangible assets using either the cost model or revaluation	*CGAS 5, Section 3.3. 'Measurement on the reporting date':* "An intangible asset shall be carried at its amount on initial recognition (= acquisition cost) less accumulated amortisation and accumulated impairment losses." (cost model)	**PSAFRS 13 "Intangible assets":** "After the initial recognition, intangible assets with limited useful life are stated at cost less accumulated amortisation and asset impairment in the financial statements (cost model)."	Where an active (homogeneous) market exists, intangible assets other than those that are held for sale should be carried at current value in existing use at the reporting period date. As a consequence, entities covered by the FReM do not have the option given in IAS 38 to adopt the

Option	France	Lithuania	United Kingdom
model.			cost model for such intangible assets. The current value should be based on the market value in existing use. Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost.

Summary of findings of the country analysis of the most notable options

- The analysis of the accounting for investments in controlled entities, jointly controlled entities, and associates in separate financial statements has shown a heterogeneous picture. No pattern or trend could be identified. All alternatives provided by IPSAS 34.12 could also be found in the three Member States' accounting requirements under review.
- Also the consolidation of jointly controlled entities differs between Member States analysed. Whereas in France no consolidated financial statements are prepared, in Lithuania full consolidation of a jointly controlled entity in one of the venturer's consolidated financial statements is required. In UK, IFRS 11 is already applied and therefore a joint venturer shall account for its interest in the joint venture using the equity method.
- The analysis of the choice in IPSAS 17.2 to recognize heritage assets[13] in an entity's financial statements has shown that all analysed Member States require the recognition of heritage assets. It has to be noted that all Member States define precisely what is meant by heritage assets in their accounting framework.
- During the analysis of country's requirements for the subsequent measurement of property, plant and equipment (PPE), no homogenous picture can be identified. All countries analysed have mixed approaches for the subsequent measurement of PPE in place. Whereas France and Lithuania follow more cost-oriented approaches, the UK focuses on market value-oriented approaches for PPE.
- For intangible assets the same holds true as for PPE: France and Lithuania follow cost-oriented approaches for the subsequent measurement of intangible assets, whereas the UK favours a market value-oriented approach for PPE.

[13] Currently the IPSASB has a project on heritage assets on its agenda. The next step in the project will be the issuance of a Consultation Paper.

4. Discussion of matters relevant for a European harmonization

In this section we will discuss two issues that are relevant from an EPSAS standard-setting perspective:

- Expected consequences of EPSAS retaining only a single alternative for the IPSAS options;
- Consequences of retaining IPSAS options for an interim period, but removing them later in the EPSAS standard-setting or implementation phase.

These two issues will be discussed mainly in the context of the most notable options.

4.1 Expected consequences of EPSAS retaining a single alternative for the IPSAS options

Retaining a single alternative for the IPSAS options can have different consequences. When assessing the expected consequences it needs to be looked at the different dimensions of those consequences.

On the one hand, the positive dimensions are

- improved comparability,
- reduction of changes of accounting policies in subsequent periods,
- increased fiscal transparency,
- reduction of complexity through clarity and preciseness along with reduced required training efforts and
- increased acceptance of EPSAS as a general consequence.

Improved comparability and reduction of changes in accounting policies
The narrowing down of options is generally a desirable objective given that entities' financial statements would be more comparable across European Member States if only one accounting treatment was required for similar transactions (inter-entity comparability). However, it should be noted that standards alone cannot ensure consistent application of accounting requirements. More detailed guidance or interpretations are needed in order to avoid country-specific interpretations of EPSAS being established over time (e.g. "German EPSAS" or "UK EPSAS").
Furthermore, eliminating alternatives in the development of future EPSASs would also prevent entities from changing accounting policies in subsequent periods. This would strengthen the consistency and comparability of the entities' financial statements over time (inter-temporal comparability).

Increased fiscal transparency
Fiscal transparency[14] can also be strengthened by having less or no options as by this a more clear and reliable presentation of the financial statements can be achieved. This means that users are able to obtain comparable and consistent financial information for each public sector entity. However, the narrowing down of options could at the same time lead to a reduction of transparency as it removes the possibility for preparers to choose the option that best reflects the "economic reality" of a transaction. Depending on the type of transaction, the "economic reality" can sometimes be better described when different alternatives are in place (e.g. electing to use fair value instead of cost for the measurement of an item of property, plant and equipment allows to take into account the intention of its use, e.g. selling the item).

[14] According to the IMF "fiscal transparency refers to the clarity, reliability, frequency, timeliness, and relevance of public fiscal reporting […]." See IMF, Fiscal Transparency, Accountability, and Risk, Prepared by the Fiscal Affairs Department in collaboration with the Statistics Department, August 7, 2012, p. 5.

Reduction of complexity and increased acceptance of EPSAS
Having one accounting treatment only for transactions that are similar would contribute to the clarity and preciseness of EPSAS. This in turn could reduce complexity of the accounting framework which could have an effect on the required training for EPSAS. Given that for some jurisdictions the training efforts needed for EPSAS will be quite high, an accounting framework with fewer options would contribute to a reduced training scope and as a consequence could also contribute to the acceptance of EPSAS. However it has to be seen that a narrowing down of options might limit the possibilities for preparers for providing information on the “economic reality” of a transaction.

On the other hand the following disadvantages of retaining a single alternative for the IPSAS options have to be considered

- certain efforts for first-time adopters
- effects on accrual budgets through remeasurements of assets and/or liabilities
- less flexibility
- reduction of possibilities for specific accounting treatments in specific circumstances.

Efforts for first-time adopters and effects on accrual budgets through remeasurements of assets and/or liabilities
One of the main consequences of the narrowing down of options provided by IPSAS to a single option would be that at first-time adoption of EPSAS, Member States applying the other alternative as required would have to change its accounting policies and as a consequence entities might have to remeasure their assets and/or liabilities. Such remeasurements could lead to considerable efforts by Member States depending on:

- the current measurement approach applied,
- the option chosen for EPSAS and
- the amount of assets affected.

For entities where budgets and accounts are on the same basis of budgeting/ accounting reappraisal of assets and/or liabilities could also affect their budget (e. g. through higher depreciation charges or higher allocation of expenses needed for pension provisions).

Less flexibility and reduction of possibilities for specific accounting treatments in specific circumstances
It also needs to be considered that in case of specific circumstances or particular transactions, these can be best shown in the financial statements when multiple accounting solutions are possible. It can therefore be argued that in case of specific circumstances or particular transactions a more reliable presentation and a better reflection of economic reality can only be achieved when there are options available in the accounting framework. Having options in place would allow a view on a transaction depending on its purpose for the entity (e.g. intention to sell, intention to maintain and to provide a robust view on transactions depending on the reliability of the data given. Therefore a limitation of options to a single one could lead to less flexibility in deriving entities’ accounting policies, and with that to even less transparency. Finally, in terms of the timing perspective, it also needs to be looked at the consequences for first-time adopters of EPSAS as well as at the long term consequences of having only a single alternative within the EPSAS accounting framework.

4.2 Consequences of retaining IPSAS options for an interim period, but removing them later in the EPSAS standard-setting or implementation phase

The following table summarizes the positive as well as the negative consequences of retaining IPSAS options for an interim period (i.e. a transitional period where it would be allowed to make use of the options provided by IPSAS), but removing them later in the EPSAS standard-setting or implementation phase.

Positive consequences	Negative consequences
+ Can increase acceptance of EPSAS by preparers. + Having an interim period would allow entities time to adapt their accounting policies and to reappraise assets (and/or liabilities) over time and thereby stretch capacity needs over the interim period (in order to avoid capacity peaks). + Users of the financial statements benefit through being able to make comparisons with prior years financial statements during the interim period.	- Comparability of entities will be impaired during the interim period. - In case that it is not clear from the beginning which of the options will be chosen under EPSAS, entities that have not accounted for specific transactions or events until first-time adoption of EPSAS might choose alternatives for those transactions or events that could lead to changes in subsequent periods. - Double efforts for example regarding the preparation of EPSAS accounting manuals at entity-level, which would need to be adapted after the interim period.

In case that options will be narrowed down at a later stage of the EPSAS standard-setting process there is a risk that such first-time adopters that have not accounted for specific transactions or events until first-time adoption of EPSAS chose an option that leads to remeasurements at a later stage. Therefore, in order to avoid such remeasurements it should be clear already from the beginning of the adoption of EPSAS which option will be chosen (e.g. for subsequent measurement for PPE).

5. Recommendations for harmonization with regard to the development of EPSAS

In this section, recommendations on the way forward regarding the development of EPSAS are made.

5.1 Analysis of the options with regard to the development of EPSAS

The following table is used as a basis for the development of such recommendations. The paper looks both at the criteria that are relevant from a preparer's but also from a user's perspective.

In order to cover both the user and the preparer perspective the following criteria are considered:

- The purpose of an option;
- Practicability;
- Materiality;
- Comparability.

The purpose of an option as well as the practicability criterion will primarily consider the preparer perspective whereas comparability primarily looks at the user perspective. The criterion of materiality both looks at the preparer as well as the user perspective.

In the "purpose of option"-column we will provide background information and a description of the purpose of the option(s). All notable option(s) identified in the suite of IPSAS are linked to the option(s) provided by the underlying IAS/IFRS. It also needs to be considered that in its early years, the International Accounting Standards Committee (IASC) being the predecessor of the IASB was mostly documenting existing practices around the world. As a consequence, the IASC's standards were not particularly detailed or prescriptive (e.g. IAS 16, Accounting for Property, Plant and Equipment (effective date of 1 January 1983)). Later on, the IASC and the IASB had several rounds of quality improvements of the standards at the behest of the International Organization of Securities Commissions (IOSCO) and they gradually eliminated option(s) from their standards. Many of the remaining options in IAS/IFRS have their origin in diversity in practice found when the standard was set, different predecessor practices under national GAAPs or the need to provide meaningful reporting for genuinely different business models that are covered by the same standard. In this column the background and the (possible) rationale of the standard-setters for providing these options based on available documentation is described. Where sufficient documentation was not available it is also referred to the respective Conceptual Frameworks to outline the characteristics of each of the options.
In the column "effect of the option on practicability" it is analyzed whether an option leads to significant benefits for the preparer. In this context it is assessed whether it is worthwhile keeping the option. In this category also factors relevant from a standard-setting perspective will be considered.
When it comes to the criterion of materiality of an option, "materiality" refers to their potential impact on the financial statements. The materiality assessment is made primarily at an entity and/or country level, i.e. the materiality of an option is not assessed at a consolidated European-wide level. In this context it needs to be considered that materiality can vary from entity to entity. Therefore, the assessments made for materiality can only be made based on average considerations. The analysis will be performed by assessing the possible range/spread that will be realized by the different alternatives of an option. Then a rough estimation of the number of entities (e.g. in the case of IPSAS 6 or 8) or items (e.g. in the case of IPSAS 16, 17 or 31) to which the option apply. Based on both factors (range/spread and number of entities/items) we make an estimation of the overall materiality of an option(s) provided by IPSAS based on the categories of high, moderate or low.
Finally, with regards to the criterion of "effect of the alternative on comparability" an assessment which of the alternatives of an option contributes to a better achievement of comparability between entities is performed.

Option	Purpose of option	Effect of the option on practicability	Materiality (high/moderate/low)	Effect of the alternative on comparability
IPSAS 6.58 and IPSAS 34.12: Measurement of investments in controlled entities, jointly controlled entities, and associates in separate financial statements using cost, the equity method or IPSAS 29.	This option was also provided by IAS 27 (Revised 2003) para. 38 as being the basis for IPSAS 6. Given that for some investments in controlled entities, jointly controlled entities, and associates fair values are not available, also an option to use the equity method or cost is provided.	In practice it can happen that there are entities that have no equity or their fair value cannot be measured reliably. Therefore, approaches that provide more reliable information to measure such investments are needed (e.g. using cost).	Given that the size of controlled entities, jointly controlled entities, and associates can be considerably large, different measurement bases can have a significant effect on separate financial statements. From a volume perspective, the use of controlled entities, jointly controlled entities, and associates is quite common in the public sector. To sum up, the materiality of this option is considered to be **high**.	Using fair value-based approaches where an open, active and orderly market does not exist might impair comparability as they require the use of valuation models and judgement by preparers. From a reliability perspective, using cost or the equity method are possibly better suited to contribute to comparability. However, the use of cost might be less suitable if there are significant variations in the current value of an entity. In that case comparability could even be impaired by the use of cost.
IPSAS 8.35: Measurement of jointly controlled entities using proportionate consolidation or the equity method.	This option was provided by IAS 31 (Revised 1998) para. 30 as being the basis for IPSAS 8. <u>Arguments for proportionate consolidation:</u> Proportionate consolidation better reflects the substance and economic reality of a venturer's interest in a jointly controlled entity, that is control over the over the venturer's share of the future economic benefits (see IAS 31 (revised 1998) para. 33). <u>Arguments for the equity method</u>: Some stakeholders consider it as inappropriate to combine controlled entities with jointly controlled entities and some argue that venturers have	It has to be considered that IPSAS 8 will be superseded by IPSAS 37. Given that IPSAS 37 requires that a joint venturer accounts for its interest in a joint venture using the equity method, proportionate consolidation won't be allowed anymore.	Given that the size of jointly controlled entities can be considerably large, different measurement/consolidation bases can have an effect on the consolidated financial statements. Given that both methods reflect developments in equity, differences will likely be less than in separate financial statements. From a volume perspective, the use of jointly controlled entities is less common in the public sector than the use of controlled entities, jointly controlled entities, and associates. To sum up, the materiality of this	Both methods allow for comparability. No significant impairment of comparability could be identified for both of the options.

Option	Purpose of option	Effect of the option on practicability	Materiality (high/moderate/low)	Effect of the alternative on comparability
	significant influence, rather than joint control (see IAS 31 (revised 1998) para. 33). Also in practice, there were venturers that report their interest in jointly controlled entities by the equity method.		option is considered to be **moderate**.	
IPSAS 17.2: Choice to recognize heritage assets in an entity's financial statements.	Heritage assets are considered in public sector accounting because of their cultural, environmental, or historical significance. The problem of accounting for heritage assets is that their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price. It also has to be considered that there are legal and/or statutory obligations that may impose prohibitions or severe restrictions on disposal by sale. Heritage assets are often irreplaceable and their value may increase over time, even if their physical condition deteriorates.	There are public sector entities in Member States that have large holdings of heritage assets that have been acquired over many years and by various means. The registration, measurement and subsequent administration of those assets can be very cumbersome. It may also be difficult to estimate their useful lives, which in some cases could be several hundred years.	Given that some public sector entities in Member States have large holdings of heritage assets the option to recognize heritage assets can have a significant effect on an entity's balance sheet. To sum up, the materiality of this option is considered to be **moderate** to **high** (depending on the entity).	Both methods allow for comparability. No significant impairment of comparability could be identified for both of the options.
IPSAS 17.42: Subsequent measurement of property, plant and equipment using either the cost model or revaluation model.	This option is also provided by IAS 16.29. Therefore, the IPSASB achieved convergence with IAS 16. From an accountability, as well as understandability and verifiability perspective the cost model has its advantages. Also from a faithful representation perspective the cost model has its advantages as it is more objective than fair value-oriented	In practice, the cost model is widely applied as measurement basis in many jurisdictions (e.g. in Continental Europe). However, there are countries in the world where fair value-oriented approaches for the measurement of PPE are applied (e.g. in many Anglo-Saxon countries like UK).	The difference in value for property, plant and equipment using the cost model versus the fair value model can get significant over time as the cost model does not reflect any price changes on the market. From a volume perspective it can be said that property, plant and equipment is the most significant category of	Given that with the revaluation model judgement by preparers could be involved (see IPSAS 17.45 ff.), the use of the cost model is possibly better suitable to contribute to the objective of comparability than the revaluation model using fair value as a basis. However, the use of cost might be less suitable if there are significant variations in the current value of an

Option	Purpose of option	Effect of the option on practicability	Materiality (high/moderate/low)	Effect of the alternative on comparability
	approaches as it does not require judgement by preparers. However, the cost model does not reflect the value of assets at the time they are consumed, and it does not provide information on that value in circumstances where the effect of price changes is significant. In contrast, fair value- (or market value-) oriented approaches reflect the value of assets at the time they are consumed, and they provide information on that value in circumstances where the effect of price changes is significant. Fair value-oriented approaches also provide a relevant basis for assessing a financial return. Initially, the IASC has considered the cost model as the benchmark treatment and the revaluation model as the allowed alternative treatment (see IAS 16 (revised 1998)).		assets in the public sector. To sum up, the materiality of this option is considered to be **high**.	item of property, plant and equipment. In that case comparability could even be impaired by the use of cost. Given the large difference in measurement results especially for long-life assets, the impact of this option on comparability in general can be considered as high.
IPSAS 31.71: Subsequent measurement of intangible assets using either the cost model or revaluation model.	This option is also provided by IAS 38.72. Therefore, the IPSASB achieved convergence with IAS 31. The arguments for the use of the cost model for intangible assets are the same as for PPE. Other than IAS 16, IAS 38 requires for the purpose of revaluation, that fair value should be determined by reference to an active market.	In practice, the cost model is widely applied as measurement basis in many jurisdictions (e.g. in Continental Europe). However, there are countries in the world where fair value-oriented approaches for the measurement of intangible assets are preferred (e.g. in many Anglo-Saxon countries).	The difference in value for intangible assets using the cost model versus the fair value model can get significant over time as the cost model does not reflect any price changes on the market. From a volume perspective it can be said that intangible assets are of less importance than property, plant and equipment in the public sector.	Given that with the revaluation model judgement by preparers could be involved (see IPSAS 31.77 ff.), the use of the cost model is possibly better suitable to contribute to the objective of comparability than the revaluation model using fair value as a basis. However, the use of cost might be less suitable if there are significant variations in the current value of intangible assets. In that case

Option	Purpose of option	Effect of the option on practicability	Materiality (high/moderate/low)	Effect of the alternative on comparability
			To sum up, the materiality of this option is considered to be **moderate**.	comparability could even be impaired by the use of cost.

5.4 Recommendations for harmonization

The analysis of the accounting frameworks has shown that due to the preference for market-value approaches in GFS, cost-oriented measurement approaches do not support convergence between IPSAS, EAR and GFS/ESA. However, the country analyses have shown a more differentiated approach in Member States. Therefore, it is concluded that for each of the options in the suite of IPSAS it needs to be considered individually how a suitable approach for narrowing down of options could look like.

Based on the various analyses performed for each of the options the following discussion points have been identified:

Option	Recommendations
IPSAS 6.58 and IPSAS 34.12: Measurement of investments in controlled entities, jointly controlled entities, and associates in separate financial statements using cost, the equity method or IPSAS 29.	► Therefore, the narrowing down of options needs to be discussed for each type of entity separately. As a basis, it is recommended to analyse the current measurement approach for a) investments in controlled entities, b) jointly controlled entities, and c) associates in separate financial statements for all or at least a significant part of all Member States. ► Given that IAS 27 does not allow the equity method anymore it could be argued that only the cost method or IPSAS 29 should be allowed anymore. However, given that the IPSASB has just recently reconfirmed the necessity of the equity method in the public sector through IPSAS 34, it is suggested to keep the equity method as an alternative.
IPSAS 8.35: Measurement of jointly controlled entities using proportionate consolidation or the equity method.	► Given that IPSAS 37 won't allow proportionate consolidation anymore, it is recommended to consolidate jointly controlled entities (joint ventures) in EPSAS consolidated financial statements by using the equity method.
IPSAS 17.2: Choice to recognize heritage assets in an entity's financial statements.	► The analysis of the accounting frameworks has not shown a clear picture on the recognition of heritage assets in an entity's financial statements. ► Given that there are public sector entities in Member States that have large holdings of heritage assets it is recommended to assess the current recognition approach for heritage assets for all or at least a significant part of all Member States. To get an understanding about the efforts for the recognition of those assets, also the approximate number of assets affected by the recognition should be provided by Member States.
IPSAS 17.42: Subsequent measurement of property, plant and equipment using either the cost model or revaluation model.	► Before any decision for the narrowing down of options is taken it is recommended to assess the current measurement approach for property, plant and equipment for all or at least a significant part of all Member States. To get an understanding about the remeasurement efforts, also the approximate numbers of assets affected by a remeasurement should be provided by Member States.

Option	Recommendations
IPSAS 31.71: Subsequent measurement of intangible assets using either the cost model or revaluation model.	See IPSAS 17.42.

Appendix 1: Matters relevant for future standard-setting

When drafting the issue paper the following matters have been identified that could possibly be of relevance for future standard-setting:

1. Whether the assessment made for the identification of the most notable options is balanced and complete.

2. Whether the results of the analysis on the options that would support convergence between IPSAS, EAR and GFS/ESA is balanced and complete.

3. Whether the findings regarding the country analysis of the most notable options is complete and accurate.

4. Whether the general assessment of the positive as well as the negative consequences of retaining a single option for the most notable options within the suite of IPSAS is complete.

5. Whether the general assessment of the positive as well as the negative consequences of retaining IPSAS options for an interim period, but removing them later in the EPSAS standard-setting or implementation phase is complete.

6. Whether the recommendations made for each of the most notable options within the suite of IPSAS are appropriate.

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