Towards Convergence Between Government Finance Statistics and Public Accounting Standards

or

GFS and financial accounting are brothers!

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Introduction

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• GOVERNMENT FINANCE STATISTICS (GFS) = deficit and debt = national accounts = EDP
• PUBLIC ACCOUNTING STANDARDS = IPSAS or national GAAP

The message is: we have the same objective, we should converge!
My basic (naive?) assumption

• A system of unique public accounting standards is possible in the EU that:
  – Is harmonised for central government, and all significant other entities of general government
  – Is adapted to micro analysis as well as for macro analysis, by simple consolidation
  – Is compatible with the existing rules of macro fiscal monitoring in Europe
  – Is applicable by the tens of thousands of public accountants
Convergence = Compromises

• Public accounting standards should be compatible with macro fiscal rules adopted by EU Treaties:
  – Perimeter of consolidation compatible with «general government »
  – Choice of main performance indicator compatible with definition of deficit in national accounts: « S13-B9 »
  – Take into account the « acquis » of the jurisprudence of the 15 years of EDP (multiple control, accrual recording of taxes, classification of expenditures, harmonised chart of accounts)
  – Adapt to timeliness and frequency of macro fiscal monitoring
Convergence = Compromises

• **GFS** should accept to adapt:
  – Definition of « control » should be aligned on public accounting standards
  – Acceptance of the concept of « provision »
  – Clarification as regards « revisions » and « correction of errors »
  – Align on public accounting standards on:
    • PPPs
    • ...

Two examples

1. Where public accounting standards should adapt:
   • Perimeter of government

2. Where GFS should adapt:
   • Provisions
Perimeter of consolidation

Two different approaches

• GFS = a *macro* consolidation approach
  • consistent with Maastricht *macro* criteria
  • general government includes all levels of government entities (central, state, local)
  • as if the « central government » controlled all other local governments
  • In practice: consolidation based on a global list of entities

• Public accounting standards = a *micro* consolidation approach
  • exclusive use of control criterion
  • central government does not control local governments
  • fragmented consolidation: adapted to each government unit
  • perimeter of consolidation extended to « market » units
Perimeter of consolidation

A pragmatic solution

• One overarching constraint:
  – « General government » is in the Treaties.
  – « Public sector »: is not in the Treaties. Would have a major impact on the debt indicator.

=>Public accounting to adapt

• However, this is not a revolution.
  – Allow for an additional consolidation process.
  – Reflection on multiple control (EFSF): proportional consolidation.
Provisions

- Provisions exist in public accounting
- They are a category of liability:
  - A provision is a liability of uncertain timing or amount
- By ignoring « provisions » as a concept, GFS is losing relevance and internal consistency
  - In practice, the situation of appearance of a liability of « uncertain timing or amount » is frequent
  - There is only « ad-hoc » responses in GFS
  - Recognition in some cases (standardised guarantees, three call guarantee), but without clear treatment
Provisions: not a revolution for GFS

• SNA/ESA recognises standardised guarantee « provisions »
• MGDD also recognises provisions: the « three calls » rule is a « provision »
• T-accounts are illustrated in the paper
• The argument on « symmetry » is not acceptable
• The argument on « window dressing » is not convincing
• Adoption of the provision as a concept would clarify the treatment of accrual taxes
Public accounting standards: additional practical adaptations

• **Classifications:** users strongly benefit from SNA/ESA standardised classifications: COFOG should be introduced at individual level

• **Presentation of financial statements:** users strongly benefit from international and national comparability: a simplified (at intermediary level) chart of account is necessary

• **Timeliness and frequency:** necessary adaptation to the macro monitoring time-table
## A synthesis of the issues discussed in the paper

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The systems should merge...

- ESA was used as a default when the SGP was adopted
- It was the only existing internationally harmonised system of accounting!
- A harmonised system...
  - adapted to *micro* public sector,
  - extending comparability to micro entities,
  - allowing consolidation under the *macro EU* rules
    
    ...is possible...in some time...

- This system should take into account the acquis and experience of 15 years of EDP
THANK YOU