

Towards Convergence Between
Government Finance Statistics and
Public Accounting Standards
or
*GFS and financial accounting are
brothers!*

François Lequiller

Introduction

- Paper presented at the Eurostat conference « The accounts of society », June 2014.
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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

Extract of table of convergence

A synthesis of the issues discussed in the paper

<i>Domains of divergence</i>	<i>Who should move?</i>	<i>Level of difficulty of convergence</i>
Definition of perimeter of consolidation	Public accounting	Low
Concept of control	GFS	Low
Definition of surplus/deficit	Public accounting	Low
Treatment of holding gains	GFS	Medium
Valuation of liabilities	Public accounting and GFS	Low

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