

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

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# 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**