

## AASB Staff Comments on IMF *GFSM 2001* Update

*Staff note to Board:* These comments were sent to the ABS on 22 December 2010.

Thank you for the opportunity to comment.

At its 8 – 9 December 2010 meeting, the AASB noted the IMF review of *GFSM 2001* and the potential relevance of the review to the AASB's work on GAAP/GFS harmonisation. Although the AASB noted that there may be limited opportunities to further the cause of GAAP/GFS harmonisation given the focus of the current work of the IMF is on SNA/GFS harmonisation, the AASB asked AASB staff to monitor the work being undertaken and provide relevant comments to the ABS as the coordinator of Australia's response to the IMF.

Accordingly, the following reflects an AASB staff view, particularly from a GAAP/GFS harmonisation perspective in relation to current GAAP. We note that one of the main benefits of GAAP/GFS harmonisation is that the accounting system provides a robust basis for collecting statistics, and therefore we would encourage the IMF to have greater regard to GAAP than currently appears to be the case as it reviews *GFSM 2001*.

In focusing our comments on GAAP/GFS harmonisation, we appreciate that the IMF acknowledges GAAP (see, for example, issue 23 'New Appendix – GFS Relationship with Public Sector Accounting'). However, we would be concerned if the focus were to be only on International Public Sector Accounting Standards (IPSASs), noting that, in Australia, the focus of GAAP is on Standards issued by the International Accounting Standards Board (IASB), adapted where necessary to meet public sector needs.

We also note that GAAP is constantly being improved and, therefore, it would be useful for the IMF to have regard to how it will deal with future GAAP changes. For example, although currently GAAP and GFS distinguish between operating and finance leases, GAAP is expected to no longer draw that distinction (which is an arguably conceptually superior approach), and therefore a GAAP/GFS difference will emerge unless the IMF considers adopting the revised GAAP approach as part of the current review.

Furthermore, we note that we previously provided suggestions for some additional issues that we think could be usefully added to the list being considered by the IMF – see email correspondence from Robert Key to Brigitte Batschi dated 23 November 2010. It is not clear to us how the ABS intends dealing with those issues in making a response to the IMF.

If you wish to discuss our comments, please contact Latif, [loylan@aab.gov.au](mailto:loylan@aab.gov.au) or Robert [rkeys@aab.gov.au](mailto:rkeys@aab.gov.au). Please note the AASB office will be closed from Thursday, 23 December 2010 to Monday, 10 January 2011.

## IMF GFSM 2001 Update – Main Issues Document

No	Topic	Main Issue	IMF Proposed Action	ABS In-Principle Action	Stakeholder Comments
1	<b>Arrears – Shown in the original Instrument</b>	The <i>2008 SNA</i> (paragraph 3.56) states that when arrears occur, no transactions should be imputed and the arrears should continue to be shown in the same instrument until the liability is extinguished rather than recording arrears as a repayment of the original liability and the creation of a new short-term debt liability. Arrears remain with the original instrument, unless the terms and conditions change when an instrument goes into arrears. Arrears are defined as amounts that are both unpaid and past due date for payment.	The <i>GFSM 2001</i> will be amended reflecting that arrears are to be included under the specific financial liability class affected rather than its present recommendation that arrears be separately identified ( <i>GFSM 2001</i> , paragraphs 3.49-3.50, 7.144, 9.19 and 8.27).	Agree with IMF proposed action.	We note that the IASB's International Financial Reporting Standard IFRS 7 (and therefore the AASB's Australian Accounting Standard AASB 7) <i>Financial Instruments: Disclosures</i> requires disclosure of a maturity analysis, but GAAP does not impute transactions in the circumstances described in this issue.  Accordingly, we agree with the IMF proposed action.
2	<b>Special Drawing Right (SDR) allocation — A new debt liability</b>	The <i>2008 SNA</i> (paragraph 11.49) indicates that SDR are assets with matching liabilities. The assets represent claims on the participants to the scheme collectively and not on the IMF. SDR holdings by IMF members are recorded as an asset, while the allocation of SDRs is recorded as the incurrence of a debt liability of the member receiving them (as there is a requirement to repay the allocation in certain circumstances and also interest accrues).	<i>GFSM 2001</i> will revise the position that an SDR allocation does not have a corresponding liability and would need to provide for the SDR allocation as a new debt instrument ( <i>GFSM 2001</i> , paragraphs 10.47, 7.59-5.96, 7.95, 9.24, 9.26, Appendix IV) and all tables related to liabilities. It will be recommended that the SDR allocations be attributed to the central bank, central government, or other general government agency responsible for monetary functions,	Disagree with IMF proposed action. The IMF proposed action does not fully reflect the SNA 08. The ABS propose that SNA 08 be fully adopted to accommodate the current ABS treatment in the national accounts where SDR assets reside with the RBA and liabilities with the general government.	We do not express a view on this issue, on the basis that the AASB has not explicitly discussed the accounting treatment of SDRs.

			according to country specific arrangements.		
3	<b>Insurance, pension, and standardised guarantee schemes</b>	The <i>2008 SNA</i> (paragraphs 11.103-11.110), introduced “insurance, pension, and standardised guarantee schemes” as a debt instrument category as part of the debt instrument “other investment fund shares or units.” These reserves, entitlements, and provisions represent liabilities of the insurer, pension fund, or issuer of standardised guarantees, and a corresponding financial asset of the policyholders or beneficiaries. This new instrument can potentially be classified by maturity; however, if data are not available, a convention that it has a long-term maturity can be adopted. This instrument category would largely be related to positions between residents (except for reinsurance) in the corporate sector.	Governments are often in control of public pension funds, and standardised guarantee schemes such as export credit guarantee schemes. This debt instrument category will replace the current category insurance technical reserves ( <i>GFSM 2001</i> , paragraphs 7.120-7.129, 9.40-9.43 and Appendix IV).9.43 and Appendix IV).	Agree with IMF proposed action.	<p>We note that GAAP does not define specific categories of financial liabilities, including the debt category.</p> <p>Therefore, we note that the IMF’s proposed treatment is not inconsistent with GAAP to the extent the category reflects the underlying economic phenomenon.</p> <p>We suggest the IMF reconsider the term ‘long-term maturity’ because it could be subject to wide interpretation in practice.</p> <p>We recommend that, if the maturity of a debt instrument is not capable of being determined because the obligation is open-ended, the debt instrument be classified in a manner that conveys to users the open-ended nature of the obligation.</p>
4	<b>Research and Development</b>	According to <i>2008 SNA</i> (paragraphs 10.103-10.105) intellectual property products include the results of research and development (R&D), which consists of the value of expenditures on creative work undertaken on a systematic basis in order to increase the stock of knowledge used to devise new applications. R&D should be recognised as part of capital formation unless it does not provide an economic benefit to its owner. While the <i>SNA</i>	The <i>GFSM 2001</i> will be amended to reflect that costs incurred for R&D create an asset. <i>GFSM 2001</i> should also introduce an asset category ‘Research and Development’ as part of ‘Intellectual property products’ under fixed assets ( <i>GFSM 2001</i> , paragraphs 6.24, 7.51, 8.39 and Appendix IV). Also see Section C on presentation of non financial assets.	Agree with IMF proposed action - however, clearly defined boundaries where R&D should be recognised as part of capital formation need to be provided by the IMF. The OECD Handbook on Deriving Capital Measures of Intellectual Property Products provides further guidance on the	<p>We note the IMF’s proposed definition and treatment of R&amp;D is not consistent with GAAP (which expenses research and capitalises development).</p> <p>In principle we support recognition of both R&amp;D, measured at fair value.</p> <p>However, for practical GAAP/GFS harmonisation reasons, we can understand the view that GFS should align with GAAP.</p>

		generally recommends that the output of research and development should be valued at market prices if purchased (outsourced) or at the sum of total production costs plus an appropriate mark-up representing the costs of fixed assets used in production if undertaken on own account, R&D undertaken by government units, universities, non-profit research institutes, etc. is nonmarket production and should be valued on the basis of the total costs incurred excluding a return to capital used (2008 SNA, paragraphs A3.22-23).		definition of R&D and could be referenced.	
5	<b>Special Purpose Entities — borrowing for fiscal purposes</b>	Discussions on special purpose entities (SPE) concluded that the usual statistical rules should be applied to decide whether a SPE is an institutional unit and its sectorisation. However, a special case emerged for government controlled SPEs created abroad. In the 2008 SNA (paragraphs 4.55–4.58 and 22.51–22.54) special rules are introduced for avoiding a misleading picture of government expenditures/external debt when an SPE or other entity owned or controlled by the general government is resident in another territory and borrows for fiscal purposes. Fiscal purposes can be distinguished because, unlike commercial purposes, they are always oriented to serving the objectives of the government’s home territory. For	The <i>GFSM 2001</i> will address the treatment of borrowing for fiscal purposes by non-resident SPEs, reflecting that at the time of borrowing by the SPE, a government’s external debt liability to the SPE is imputed, which is only extinguished when the SPE repays its debt. <i>GFSM 2001</i> should clarify the position of those SPEs in the chapters on Coverage, Transactions in Financial assets and Liabilities, and the Balance Sheet. A reference to borrowing for fiscal purposes should also be made in the <i>GFSM 2001</i> Appendix II.	Agree with IMF proposed action.	We note that GAAP would not impute transactions in these circumstances, and therefore a GAAP/GFS difference might arise.

		<p>example, a government may use an SPE or other entity to issue securities to fund its expenses abroad. While all transactions between government and the SPE would be recorded in the usual way, an additional imputation is required for cases where a nonresident SPE borrows on behalf of government and no flows occurred between government and the entity. At the time of borrowing by the SPE, a government's external debt liability to the SPE is imputed equal to the amount of the SPE borrowing, with the contra-entry of the government's equity in the SPE. The government's equity (government asset) is reduced if the funds are passed to the government or they are passed to a third party. These entries are made symmetrically for both the government and the borrowing entity. The imputations do not affect the transactions or positions between the borrowing entity and its creditors, which are recorded as they occur with no imputations.</p>			
6	<b>Military Expenditures</b>	<p>The <i>2008 SNA</i> (paragraphs 10.87, 10.144, and A3.55-58) recommends that military weapons systems should be classified as fixed assets and that the classification of military weapons systems as fixed assets be based on the same criteria as for other fixed assets. These are now considered as produced assets that are themselves</p>	<p>The <i>GFSM 2001</i> will be amended to reflect that the asset boundary for weapon systems should be based on the same criteria as for other fixed assets, namely if used repeatedly or continuously in the processes of production for more than one year it should be considered a fixed asset. (<i>GFSM 2001</i>, paragraphs 5.9,</p>	<p>Agree with IMF proposed action - however, further clarification on valuation methodology for defence weapons platforms needs to be provided by the IMF.</p>	<p>We agree with the ABS view, noting the IMF proposed action would remove a current GAAP/GFS harmonisation difference.</p>

		used repeatedly, or continuously, in processes of production for more than one year. This change resulted from the argument that military weapons systems comprising vehicles and other equipment such as warships, submarines, military aircraft, tanks, missile-carriers, etc. are used continuously in the production of defence services, while their peacetime use is simply to provide deterrence.	5.107, 6.26, 7.36, 7.152, and 8.31)		
7	<b>Land Improvements</b>	The <i>2008 SNA</i> (paragraphs 10.79- 10.81 and A3.78) recommends that land improvements continue to be treated as gross fixed capital formation. However, the <i>2008 SNA</i> recommends treating land improvements as a category of fixed assets distinct from the non-produced land asset as it existed before improvement. In cases where it is not possible to separate the value of the land before improvement and the value of those improvements, the land should be allocated to the category that represents the greater part of the value. The costs of ownership transfer on all land should be allocated to the land improvements category in the balance sheet.	The <i>GFSM 2001</i> would need to be amended to introduce the asset category ‘Land improvements’ in fixed assets. ( <i>GFSM 2001</i> paragraphs 7.71, 8.3, and 8.47-8.48). Additional guidance should be provided on the valuation of transactions in land so as to indicate that costs of ownership transfer on land be allocated to the land improvements category ( <i>GFSM 2001</i> , paragraph 8.6).	Agree with IMF proposed action.	GAAP does not get to the level of prescription pertinent to this issue in relation to classification of assets.  Therefore, the IMF proposed action relating to classification would not be inconsistent with GAAP.  However, the rationale for the <i>2008 SNA</i> treatment of costs of land ownership transfer is unclear to us.
8	<b>Tax Credits</b>	The <i>2008 SNA</i> (paragraphs 22.95-22.98) recommends that payable tax credits should be recorded on a gross basis. <i>GFSM 2001</i> recommends a net presentation of taxes with an expense	The <i>GFSM</i> could be changed or retain its position but should indicate that a reconcilable difference exists between the presentations in the <i>GFSM 2001</i> and <i>2008 SNA</i> ( <i>GFSM 2001</i> ,	The ABS would support a change to the gross basis of recording tax credits.	In principle, we think the gross presentation basis should be adopted. GAAP typically does not offset revenue and expenses.

		recognised only in cases where repayments exceed the tax receipts.	paragraphs 5.23, 5.34, and 6.87).		
9	<b>Tax Attribution Rule</b>	The <i>2008 SNA</i> (paragraphs 3.73–3.71) adopted the principle that tax attribution will mainly be decided by the level of government that has the authority to impose the tax and has the discretion to set and vary the rate of the tax. An additional criteria of the <i>1993 SNA</i> , namely final discretion over the use of the funds, that was often misinterpreted as discretion over final spending, was deleted to clarify the attribution rules.	The <i>GFSM 2001</i> will be amended to also eliminate final discretion over the use of the funds as a criterion for tax attribution ( <i>GFSM 2001</i> , paragraph 5.25).	Disagree with IMF proposed action. It would be preferable to remove the word ‘final’ and clarify the meaning of ‘discretion over the use of funds’ instead of removing this criterion altogether. This criterion is used in Australia to attribute taxes to level of government.	In principle, consistent with GAAP, tax should be attributed to the level of government that ‘controls’ the asset giving rise to the income – therefore, authority to impose and set rates and discretion over use of funds seem reasonable bases for determining attribution.
10	<b>Index-linked Securities</b>	The <i>SNA 2008</i> (paragraphs 11.70 and 17.277-17.282) defines index-linked securities as instruments for which either the coupon payment (interest), or the principal, or both, are linked to an index such as a price index, or the price of a commodity. The <i>SNA 2008</i> recommends that when the coupon payments are index-linked they are treated entirely as interest, as is the case with any variable interest rate financial asset. When the value of the principal is indexed to an indicator that moves in line with a broad-based measure of inflation, the issue price of the security is recorded as the principal and the index payments paid periodically and at maturity is treated as interest. When a security is indexed to a narrow index, such as a	The <i>GFSM 2001</i> will be amended to reflect the distinction between the various types of index-linked securities and how these impact on recording the interest for the respective instruments ( <i>GFSM 2001</i> , paragraph 6.47).	Agree with IMF proposed action.	It is unclear to us why the treatment of principal should differ between an index that moves in line with the broad-based measure of inflation compared with a commodity index.  We think that if the principal component is linked to an index, then it should be treated the same regardless of the type of index that it is linked to.  We would expect it to be treated as interest if payments are made periodically and at maturity (whether it is linked to a measure of inflation or a commodity index) or treated as holding gains/losses if payments are not made on the principal component until maturity.

		commodity and thus may be subject to large price fluctuation, the market rate of accrual of the instrument is set at issuance while the difference with the indexed value is treated as a holding gain or loss. For foreign currency linked instruments, all changes in the value should be regarded as holding gains or losses.			
11	<b>Recording of Dividends</b>	According to <i>2008 SNA</i> (paragraph 7.130), dividends are recorded at the time when the shares go ex dividend, rather than when the dividends are declared payable. The ex-dividend date is the date the dividends are excluded from the market price of shares. The recording of dividends, at the time dividends are declared, are deemed inappropriate because it gives rise to a double count of the liability for the payment of these dividends – recognition of the dividend at declaration gives rise to an account payable, while the market value of the share should already have the expected dividend imbedded in the price of the shares.	<i>GFSM 2001</i> indicates that dividends are recorded either on the date they are declared payable or, if no prior declaration occurred, on the date the payment is made ( <i>GFSM 2001</i> , paragraph 5.85). The <i>GFSM 2001</i> will adopt the same guidance on the time of recording of dividends than those in the <i>2008 SNA</i> and <i>BPM6</i> . The manual would need to be amended reflecting the creation of a debt liability from the ex-dividend date rather than from the date dividends are declared payable.	Agree with IMF proposed action. However, further discussion is needed to determine what happens in the case of non-listed shares. Non-listed shares are particularly relevant to the government sector.	GAAP recognises dividend liability when it is declared (as implied by paragraph 12 of the IASB's International Accounting Standard IAS 10 <i>Events after the Reporting Period</i> ). Accordingly, if the IMF proceeds with its proposed action, this could create a GAAP/GFS convergence difference.  We agree with the ABS's request to clarify the treatment of non-listed shares.  We note recent changes to the Corporations Act 2001 from a 'profits test' to a 'solvency test' might also have implications.
12	<b>Introduction of FISIM</b>	In line with <i>2008 SNA</i> , (paragraph 6.163), the concept of financial intermediation services indirectly measured (FISIM) was also introduced in <i>BPM6</i> . Actual interest can be seen as including both an income element and a charge for a service. FISIM is the financial service compensated for by the margin between	Consideration should be given to whether GFS should also adopt the concept of FISIM in the interest of attaining consistency with the other macro economic datasets. <i>GFSM 2001</i> indicates that interest expense payable to financial intermediaries differs from the amount recorded in the <i>SNA</i> due to FISIM because it	Conceptually, the ABS agrees with the IMF <i>GFSM</i> being consistent with <i>SNA 08</i> . However, it is recognised that it is unlikely that jurisdictions will be able to report this data. An alternate proposal that	We can see merit in the IMF's proposal.  However, we note GAAP does not explicitly address separating service charges from interest. Indeed, the calculation of effective interest rate under GAAP includes all fees, transaction costs and other premium and discounts.

		the reference rate and the interest rate payable on loans and deposits involving financial corporations, even when lending their own funds. Therefore, actual interest payable by borrowers is partitioned between a pure interest charge at the reference rate and the implicit service charge made by financial intermediaries. By convention, FISIM applies only to loans and deposits provided by, or deposited with, financial corporations. Accrued interest not yet paid also includes FISIM accrued and not yet paid.	can only be estimated indirectly by compilers of the national accounts with access to data for all depositors and borrowers of financial intermediaries, required for the calculation. <i>GFSM 2001</i> therefore makes no adjustment for FISIM ( <i>GFSM 2001</i> , paragraph 6.51).	should be considered is for FISIM to be reported in a bridge table to the national accounts rather than in the core GFS accounts.	We agree with ABS concerns that the information may not be able to be obtained reliably.
13	<b>Non-market Output of the Central Bank</b>	The <i>2008 SNA</i> (paragraphs 6.151-6.156 and 8.126) proposed that for the central bank output related to non-market services be identified separately and be recorded as a purchase of a service by general government with a corresponding current transfer from the central bank to the general government. Such a treatment was necessitated by the need to measure the non-market service as final consumption of the general government sector.	Consideration should be given to whether the GFS should also adopt the treatment of non-market output of the central bank. Routing this transaction through government accounts will increase the levels of revenue (other miscellaneous transfers) and expense (use of goods and services) without impacting the balancing items ( <i>GFSM 2001</i> , paragraphs 5.106 and 6.19-6.32).	Conceptually, the ABS agrees with the IMF <i>GFSM</i> being consistent with <i>SNA 08</i> . However, it is recognised that there are practical issues surrounding the adoption of the <i>SNA 08</i> treatment of non-market output of the central bank in the GFS. An alternate proposal that should be considered is for non-market output of the central bank to be reported in a bridge table to the national accounts rather than in the core GFS accounts	We note that GAAP does not reroute transactions and therefore a GAAP/GFS harmonisation difference might arise if the IMF proposal is adopted.
14	<b>Interest Rates Charged By the Central</b>	The <i>2008 SNA</i> (paragraphs 7.122-7.126) recognised that when the	Consideration should be given to whether the GFS should also adopt	Agree with IMF proposed action.	Although we think in principle there might be merit in the IMF's

	<b>Bank</b>	interest rate set by the central bank is so high or so low as to imply the inclusion of an implicit subsidy or tax, these should be explicitly recorded as such if they are significant. These taxes or subsidies should be shown as receivable by and payable by government but with a matching transfer from the government to the central bank in the case of a tax and a transfer from the central bank to government in the case of a subsidy.	the recognition of an implied subsidy or tax to recognise the policy element in the case of interest rates set by the central bank at levels significantly higher or lower than the prevailing market rates. <i>GFSM 2001</i> , paragraphs 5.53, 6.39-6.55 and 6.56-6.61).		proposal from a substance over form perspective, we note that GAAP would not adopt such a treatment, and therefore a GAAP/GFS convergence difference might arise.
15	<b>GFSM 2001 - Appendix 3 – GFSM Relationship with SNA</b>	Appendix 3 broadly describes the relationship between some main aggregates in <i>GFSM 2001</i> and <i>1993 SNA</i> through text and Tables.	The <i>GFSM 2001</i> , Appendix 3 will be revised and updated with the <i>2008 SNA</i> . In addition, some needed improvements were identified during the compilation of the STA Pamphlet on Statistical relationships. Appendix 3 will be updated to reflect the revised <i>2008 SNA</i> framework, classifications and relationships. Consideration should also be given to expanding the Appendix to also briefly refer to the GFS relationships with other macro-economic datasets.	Agree with IMF proposed action.	No comment
16	<b>Guarantees</b>	The <i>2008 SNA</i> (paragraphs 17.207-17.214) introduced a three-way treatment of guarantees. One of the categories is standardised guarantees, which are treated similarly to nonlife insurance. General government and public financial corporations are potential issuers of standardised guarantees.	The general <i>SNA</i> treatment of guarantees should be applied, while there should be consultation about whether the <i>SNA</i> treatment should be followed or treated differently in <i>GFSM (GFSM 2001</i> , paragraphs 3.95-3.97, 7.147-7.148, 9.33).	Agree with IMF proposed action.	We think all guarantees that expose entities to a similar level and type of insurance risk as standardised guarantees should be treated in a similar manner to standardised guarantees.  The need for a three-way treatment of guarantees is unclear to us.

		<i>GFSM 2001</i> did not adopt the <i>SNA</i> treatment of insurance, for a reason that implicitly assumes the public sector entity is the policyholder rather than the insurer (Appendix 3 paragraph 24), so it needs to be reconsidered in the case of standardised guarantees.			
17	<b>Subsidies Omitted from Revenue Classification Structure</b>	<i>GFSM 2001</i> does not provide for a ‘subsidy’ category in the revenue classification structure. However, given that compilers are encouraged to extend the coverage of GFS data to the public sector, this revenue category is clearly an omission from the <i>GFSM 2001</i> . Even general government units can be the recipient of subsidies in cases where they have a market establishment which receives the same subsidy as other producers in the economy.	The <i>GFSM 2001</i> will be amended to include a revenue category for ‘subsidies’ in the classification structure of revenue. To maintain the number of high level categories, a separate class of revenue will be added under the category “other revenue” at the second level of the classification structure. At the detailed level, a distinction should be made between subsidies received by public corporations (financial and non financial separately identified) and market establishments — financial and non financial separately identified ( <i>GFSM 2001</i> , Chapter 5, section 4 and Appendix 4, Table A).	Agree with IMF proposed action.	The IMF proposed action seems reasonable to us, and would not be inconsistent with GAAP.
18	<b>Share and Other Equities Limited to the Liabilities Classification Structure of Public Corporations</b>	<i>GFSM 2001</i> limit the use of “shares and equity” category in the classification of liabilities to public corporations. The argument was that general government units do not issue share and equity and cannot be owned by another unit. However, with the rise of entities such as SPEs and public-private partnerships, a need for such a category for	The <i>GFSM 2001</i> will be amended to allow for the recording of “shares and other equity” as a liability of a general government unit ( <i>GFSM 2001</i> , paragraph 7.117).	Disagree with IMF proposed action. The ABS retain the view that as general government units are not owned by other units and cannot have any form of equity, that shares and other equity should not be recorded as equity of the general	The AASB is expected to issue an Exposure Draft shortly that proposes to amend AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i> to acknowledge that transactions with owners as owners might arise in a GGS context.

		<p>general government units was created. In cases where these units are involved in non-market production and deemed to be controlled by government, they should be consolidated in the general government sector. In these cases, the consolidated general government account should reflect the government's liability towards the private party in respect of this category of instruments.</p>		<p>government. Where a general government liability exists with a private party this should be recorded in 'Other Liabilities'.</p>	
19	<p><b>Functional Classification of Expense vs. Outlays</b></p>	<p><i>GFSM 2001</i> refers inconsistently to expense and outlays in the sections describing the functional classification of expense of government (COFOG). In addition, outlays are inconsistently defined as 'expense and acquisition of nonfinancial assets' and 'expense and net acquisitions of nonfinancial assets' (<i>GFSM 2001</i>, paragraphs 6.89-6.104 and Table 6.3).</p>	<p>The <i>GFSM 2001</i> will be amended to indicate that the functional classification can be applied to both expense and net acquisition of non financial assets and outlays would need to be consistently defined (<i>GFSM 2001</i> paragraphs 6.89-6.104 and Table 6.3).</p>	<p>Agree with IMF proposed action.</p>	<p>We think there would be merit in making terminology consistent throughout the <i>GFSM 2001</i>.</p> <p>We suggest that consideration is also given to applying functional classification to the stock of assets, not just acquisitions of assets.</p> <p>We note that the meaning of the term 'outlays' is unclear and seems more suitable in a 'cash flows' context.</p>
20	<p><b>Netting of Flows in Respect to Transactions in Non Financial Assets</b></p>	<p><i>GFSM 2001</i> incorrectly indicates that the net acquisition of a category of asset could easily be computed as acquisitions less disposals (<i>GFSM 2001</i>, paragraph 8.22). This computation omitted the consumption of fixed assets to the calculation.</p>	<p>The <i>GFSM 2001</i> will be amended to indicate that the net acquisition of a category of asset should be computed as acquisitions less disposals, less consumption of fixed capital.</p>	<p>Agree with IMF proposed action.</p>	<p>This issue is not dealt with explicitly in GAAP, but the IMF's proposed action seems reasonable to us.</p>
21	<p><b>Debt Payments on Behalf of Other Units</b></p>	<p><i>GFSM 2001</i> indicates that debt payments on behalf of other units, which did not establish a claim on the original debtor and are small or a single payment should be regarded as a current</p>	<p><i>GFSM 2001</i> will be amended to be in line with the principles agreed in <i>2008 SNA</i>.</p>	<p>Agree with IMF proposed action.</p>	<p>We agree that items of a like nature should be treated in the same way.</p> <p>Under GAAP, depending on circumstances, debt payments on behalf of others could give rise to</p>

		grant when the debtor is another general government unit, a subsidy when the debtor is a corporation, and a current miscellaneous expense when the debtor is any other type of unit ( <i>GFSM 2001</i> , Appendix 2 paragraph 8). However, <i>2008 SNA</i> (paragraphs 22.107- 22.119) indicates that debt forgiveness, assumption, and payment on behalf of others will in all cases be treated as a capital transfer.			revenue, liability or contribution by owners of the 'other unit'.
22	<b>Additional Classifications of Financial Assets and Liabilities Data</b>	While <i>GFSM 2001</i> proposes that data on financial assets and liabilities be presented according to residency and instruments, liability data are also presented according to sector of the counterpart to the transaction. Work on the draft public sector debt guide has indicated that the need exists for a cross classification between instruments and holders of the respective instruments. In addition, in financial risk analyses, a need for classification of these, according to outstanding currency, also became apparent.	<i>GFSM 2001</i> will be amended to include a financial instrument cross classification with holders and a table that presents these according to outstanding currency.	Agree with IMF proposed action.	Although GAAP does not require such presentation, we think there is merit in it, and note that the IMF proposed action is not inconsistent with GAAP.
23	<b>New Appendix – GFS Relationship with Public Sector Accounting</b>	<i>GFSM 2001</i> indicates that the GFS system is described in standard accounting terms that might differ in important ways from the underlying financial accounting system ( <i>GFSM 2001</i> , Introduction, Footnote 6). It is also indicated that a comparison with financial accounting is not included in the manual, but that compilers are	Consideration should be given to adding an appendix on the relationship between <i>GFSM</i> and Public Sector Accounting Standards. Such an appendix will broadly describe the similarities and differences between accounting and statistical information and will indicate how these systems could be harmonized to provide complementary	Agree with IMF proposed action.	We strongly agree with including an explanation of the relationship between GFS and GAAP.  Similar information has been provided in Australia, and the feedback is that such information is useful. For example, <i>AASB 1049 Whole of Government and General Government Sector Financial Reporting</i>

		encouraged to reconcile GFS data with accounting information ( <i>GFSM 2001</i> Chapter 3, Footnote 7).	information.		requires a reconciliation of GAAP and GFS key fiscal aggregates and explanations of differences.  However, we are concerned that the IMF's focus is on IPSASs whereas in Australia the focus is on IFRSs issued by the IASB, adapted by the AASB to the needs of the public sector.
24	<b>Coverage and Sectorisation of Institutional Units</b>	The <i>2008 SNA</i> introduced several changes/clarifications to the presentation and terminology used for the identification and defining certain institutional units and subsectors. While many of those changes will not directly impact on the government or public sectors, for consistency with other macroeconomic statistics, the counterpart information in the <i>GFSM 2001</i> should be brought in line with the changes agreed to in the <i>2008 SNA</i> . Some additional clarifications were made in the <i>2008 SNA</i> to address boundary issues related to delineating the general government and public sectors. These were largely agreed to the Taskforce on Harmonisation of Public Sector Accounts and captured in companion material to the <i>GFSM 2001</i> that was published on the website of the IMF ( <i>2008 SNA</i> , Chapters 4 and 22, and GFS Companion material).	The <i>GFSM 2001</i> (Chapter 2) will be amended to attain consistency with the institutional sector classification and delineation guidance included in <i>2008 SNA</i> .	Agree with IMF proposed action.	We note that the approach taken in Australia in AASB 1049 is to accept the GFS definitions of sectors.  We would be concerned if the IMF were to introduce 'bright lines' to delineate the sectors, rather than base the definitions on principles.
25	<b>Classification and Recognition of</b>	The <i>2008 SNA</i> clarified the concept of economic ownership and	The <i>GFSM 2001</i> will be amended to attain consistency in the	Agree with IMF proposed action, noting the	GAAP's focus is on 'control' rather than 'economic ownership',

	<b>Non Financial Assets</b>	introduced several changes, improvements and reorganisation of categories of nonfinancial assets. Examples are the treatment of land improvements, costs of ownership transfers, mineral exploration, water resources, computer software, etc.	definition of economic assets and the classification of non financial assets.	clarification of R&D requested in Issue 4.	and therefore GAAP/GFS differences could arise.  We agree that the classification of non-financial assets should reflect underlying economic phenomena.
26	<b>Classification and recognition of financial assets and liabilities</b>	The <i>2008 SNA</i> introduced some changes to the classification and recognition of financial assets and liabilities, and introduced changes in terminology. Examples are securities repurchase agreements, guarantees, index-linked debt, pension entitlements, etc.	The <i>GFSM 2001</i> will be amended to use the same terminology for financial instruments and to attain consistency in the classification of financial assets and liabilities.	Agree with IMF proposed action.	We note that GAAP contains specific requirements relating to the classification and recognition of financial assets and liabilities – the opportunity could be taken to align GFS with GAAP here.
27	<b>Social Protection – Annex to Chapter 2</b>	<i>GFSM 2001</i> provides details on various social protection schemes in the Annex to Chapter 2. However, many compilers find the guidance vague and had problems with applying the principles in practice. During training courses, additional material on the subject was developed over the past two years. These include contributions from many staff members and GFS experts and were found to be very effective in clarifying the subject.	Drawing on <i>2008 SNA</i> and material developed over the past two years, the <i>GFSM 2001</i> will be updated to clarify the recording of economic events related to social protection in the <i>GFSM 2001</i> framework.	Agree with IMF proposed action.	We would strongly encourage IMF to work with accounting standard setters (IASB and IPSASB) to maximise the potential for alignment of GAAP and GFS on this issue.
28	<b>Loans with concessional interest rates</b>	The <i>SNA 2008</i> (paragraph 22.124) indicates that loans with concessional interest rates could be seen as providing a current transfer equal to the difference between the actual interest rate and the market equivalent interest rate. If such transfer were recognised, it would be recorded as	The update to <i>GFSM 2001</i> will require supplementary information to be disclosed on concessional debt (Appendix 2 and memorandum items).	The ABS agrees that supplementary information should be disclosed in the GFS manual so that loans are recorded on both bases. As other ABS macroeconomic statistics record	There is an opportunity to align GFS with GAAP here, by initially recognising the amounts at fair value rather than merely providing details in supplementary information.

		<p>current international cooperation and the interest recorded would be adjusted by the same amount. However, the means of incorporating the impact within the 2008 SNA and the international accounts have not been fully explored, although various alternatives have been advanced.</p> <p>Accordingly, until the appropriate treatment of concessional debt is agreed, information on concessional debt could be provided through supplementary information. In <i>BPM6</i>, the supplementary information should show the benefits arising from concessional debt as one-off transfers at the point of loan origination equal to the difference between the nominal value of the debt and its present value using a relevant market discount rate (<i>BPM6</i>, paragraph 12.44 and Appendix 2, <i>Debt Reorganisation and Related Transactions</i>, paragraphs A2.67- 2.69).</p>		<p>interest at market values, the ABS will consider moving to be consistent with other ABS macroeconomic statistics and accounting standards in the core GFS accounts.</p>	
29	<b>Value of non performing loans</b>	<p>The 2008 SNA (paragraph 13.66) introduces a definition of nonperforming loans and requires memorandum items and supplementary information on nonperforming loans. These memorandum items are required as standard for both the government sector and the financial corporation's sector, while they are required from other sectors only if significant. Memorandum items for the effect of impaired</p>	<p>The update to <i>GFSM 2001</i> will provide for supplementary information to be disclosed on non performing loans.</p>	<p>Agree with IMF proposed action.</p>	<p>We think impairment should be recognised in the financial statements as a reduction to the nominal amount.</p> <p>We think a memorandum item (note disclosure) that merely discloses potential losses would be an inadequate way of communicating information about impaired/non-performing loans.</p>

		<p>loan assets are introduced, showing fair values of loans, the values of nonperforming loans, and loan loss provisions. While nominal value is the primary valuation method for loans and other nonnegotiable assets, it is recognized that this valuation provides an incomplete view of the financial position of the creditor, particularly when instruments are nonperforming. Consequently, additional items are introduced for these instruments to give additional information.</p>			
30	<b>Contracts, leases, and licenses</b>	<p>The <i>2008 SNA</i> (paragraphs 17.296-17.383) provides clarification on the statistical treatment of contracts, leases, and licenses. Governments are often involved in these types of agreements as the issuers or recipients – in some cases public-private partners are involved. <i>GFSM 2001</i> lacks guidance on the treatment of these complex arrangements. Additional guidance contained in the <i>2008 SNA</i> provides clarity and rules according to which these types of transactions should be recorded.</p>	<p>The update to <i>GFSM 2001</i> will incorporate guidance on the treatment of contracts, leases, and licenses. The material will be incorporated in chapters on revenue, expense, and transactions and stocks of non financial assets and financial instrument, where appropriate.</p>	<p>Agree with IMF proposed action.</p>	<p>We have not reviewed the 2008 SNA material in detail.</p> <p>We encourage IMF to work with accounting standard setters (IASB and IPSASB) to develop a common approach to these issues.</p>