



To IPSASB and EUROSTAT

Subject: Proposal on setting guidelines to register COVID-19 effects on Government Financial Reporting

In 2017, the CIGAR network, the EGPA PSG XII, and the Accounting and Accountability SIG of the IRSPM, jointly established a Task Force that brings together members of the three research networks interested in public sector financial management and reporting.

The COVID-19 outbreak and the the extraordinary measures adopted by the EU Countries to fight its spread and to alleviate its economic and social impacts have stimulated the debate among the members of the Task Force on the effects of this emergency on Government Financial Reporting. As a result of this debate, the Task Force has developed a short document that it would like to share with Eurostat and the IPSASB. The specific aim of this note is to make explicit the need for and encourage the adoption of guidelines for the correct recording and categorization of the COVID-19-related expenses (at least), and the proper reporting of this information to different stakeholders. We do believe that managing this emergency requires, besides the adoption of timely public policies, timely as well as strategic accounting answers and guidance to ensure transparency and accountability, and to direct the definition of informed fiscal targets in the coming years.

The COVID-19 pandemic is causing unprecedented effects on the daily routines of citizens and their health conditions in most of the European Countries, with unparalleled and unpredictable financial consequences for the national economies. The magnitude of the crisis has even brought about something that might have appeared inconceivable a few months ago, i.e. the suspension of the applicability of the Stability and Growth Pact in the EU.

Private sector accounting firms, auditing companies as well as professional bodies (e.g. EY, Deloitte, KPMG, CIMA, Accountancy Europe) have already prepared short preliminary reports on how the COVID-19 is expected to affect accounting and accountability issues, mostly related to private sector companies and the proper use of IFRS to deal with them. Moreover, the European Securities and Markets Authority

(ESMA), the EU's securities markets regulator has issued a Public Statement¹ on some of the accounting implications of the economic support and relief measures adopted by the EU Member States in response to the COVID-19 outbreak. The European Commission is helping Member States to coordinate their responses to the crisis. A website has been created with information on the relevant areas, including the economy,² and Eurostat has already issued a methodological note to provide guidance on the seasonal adjustment policy to treat COVID19 crisis effects on time series data on economic activities³. We anticipate further measures which are required to keep track of the effects of the COVID-19 crisis, especially in the realm of the Excessive Deficit Procedures.

Central Governments in the EU have already announced measures in order to tackle the crisis. These measures correspond to increased expenses for operating purposes, investments, social benefits, subsidies, payment of guarantees, to name just a few. But there could also be other costs that are not related to cash flows, such as impairment of assets. The crisis might also seriously impact government balance sheets under accrual accounting, in relation to the measurement of investments, financial instruments, and liabilities and the disclosure of contingent liabilities. As this is an unprecedented crisis that is affecting simultaneously all Member States in Europe, albeit with different levels of gravity, it would be beneficial to adopt homogenous criteria to keep track of the policy actions and the costs of all the measures taken. This information could be used later on as a basis for setting fiscal targets towards achieving normality with a pace that better fits the characteristics of the different countries. For the treatment, presentation and disclosure of this information, recommended guidelines from ESA 2010, and specifically for the Excessive Deficit Procedure as defined by the Manual on Government Deficit and Debt, seem to be needed. In addition, recommended guidelines from the IPSASB seem necessary and timely at this point, especially in relation to IPSAS 1, IPSAS 18 and IPSAS 19.

Our proposal is to encourage Eurostat to develop a set of guidelines for keeping track and categorizing the COVID-19-related expenses, so that after this ordeal is over, Member States would be able to dismantle the extraordinary and atypical costs from the cost of operations, and to split investments to those that had been made due to the circumstances but may have future use (e.g., investments in the hospital infrastructure, the broadband infrastructure, etc.) and those that have been exhausted during the crisis. Having a homogenous categorization of the COVID-19-related expenses will permit comparability among Member States to assess the cost of the crisis after its conclusion. Similar categorization could also be done for revenues (i.e. fines for restrictions' violations, donations in cash and in kind) and other financial elements. Moreover, this classification and disclosure could make it also harder for this type of information to be misused. Public sector reporting entities should not be tempted to endlessly report (long-term) effects and outcomes of COVID-19-related policies as extraordinary or unusual.

Moreover, as the possibility of having a similar crisis next year is not remote, this information could provide important input for setting government budgets and making relevant provisions. This crisis might provide important inputs for amending IPSAS 19 in relation to "Collective and Individual Services and

¹ https://www.esma.europa.eu/sites/default/files/library/esma32-63-951_statement_on_ifrs_9_implications_of_covid-19_related_support_measures.pdf

² <https://www.consilium.europa.eu/en/policies/covid-19-coronavirus-outbreak/>

³ https://ec.europa.eu/eurostat/cros/system/files/treatment_of_covid19_in_seasonal_adjustment_methodologica_l_note.pdf

Emergency Relief”. Finally, as the size and type of measures taken by the Governments of Member States may also be different in the various service segment of activities or geographical segments, IPSAS 18 might provide guidelines on how to make relevant disclosures.

As a last comment, we propose that the Member States should provide information about the financial effects of COVID-19 to citizens in a way that meets their information needs, that is, the information is comprehensible by the man in the street and is publicly available through IT means.

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Signed on behalf of those persons listed below

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