

## **Requirement for IPSAS financial statements (InvestEU budgetary guarantee)**

### **Background**

1. The IPSAS financial statements requirement is not a Commission services operational requirement. It is an EU law requirement.
2. EU law (EU Regulation 2018/1046, art. 80) requires the Commission to adopt for its own financial statements, accounting rules that comply with international accounting standards for public sector (i.e. IPSAS). The Commission accounting officer has adopted such rules, the "European Union Accounting Rules" which are fully aligned with IPSAS.
3. EU law (EU Regulation 2018/1046, art. 209.4) requires implementing partners to prepare IPSAS audited financial statements when they manage indirectly EU financial instruments or budgetary guarantees (like InvestEU). The Commission then incorporates these financial statements in the EU financial statements. If the implementing partners do not comply with the requirement of art 209.4, the Commission cannot comply with the requirement of art.80.
4. As a result, this legal requirement is in the pillar assessment (pillar 2, section 3 key level 2 question).
5. The IPSAS in general follow IFRS with additional guidance on public sector specificities. Implementing partners (banks) will mainly refer to IPSAS 41 for preparing the financial statements for the EU guarantee. IPSAS 41 is the new IPSAS for financial instruments, based on IFRS 9. It is replacing the currently used IPSAS 29, will formally be applicable as of 1 January 2022 and will therefore be used for the 2022 financial statements. However, the Commission currently envisages adopting IPSAS 41 already for the 2021 accounts. This means that the differences between IFRS 9 and IPSAS 41 for InvestEU reporting will be limited to additional guidance on public sector specificities.

### **Practice**

1. This requirement only refers to the InvestEU reporting, not to the bank's own financial statements and not to the underlying accounting systems and data. The bank will not change the way it follows loans in its (accounting) system.
2. The bank can even manually prepare the financial statements, as long as there is an audit certificate.
3. By financial statements, we mean balance sheet, statement of fin. performance, cashflow statement, statement of changes in equity and disclosures
4. However, these statements are in practice special purpose financial statements, of a limited scope.
5. The implementing partner needs to report from an EU guarantee perspective, as the EU will incorporate these financial statements in the EU financial statements. Therefore, in practice the main requirement is to value the EU liability in relation to the guarantee provided by the EU. Banks that follow IFRS already routinely perform a similar exercise to prepare their own financial statements, specifically to calculate the expected credit losses on their portfolio of loans (an IFRS 9 requirement).

In cases where the EU grants the guarantee below market terms, IPSAS provide additional guidance (see reference 3 below).

6. In case the EU guarantees equity operations, these are considered derivatives. There is no difference between IPSAS and IFRS.
7. In addition to points 5 and 6, the financial statements would include information around the flows (e.g. fees and related deferrals/accruals, guarantee calls)

## References

1. Dashboard IFRS-IPSAS alignment (attached pdf). This relates to ALL standards. The main applicable standard for the financial statements for InvestEU purposes though, is IPSAS 41.
2. For the main element of IPSAS statements i.e. financial guarantee contract liability please see in IPSAS 41 paragraphs 45.c / 73-93 / AG 165-219. This reference demonstrates the alignment between IFRS and IPSAS in valuing the financial guarantee liability (and in the expected credit loss underlying calculations).
3. In relation to IFRS, IPSAS provides additional guidance in case the financial guarantee contract is below market terms. The application guidance is in paragraphs AG 131-136 (attached pdf for convenience)
4. Illustrative Financial statements for InvestEU guarantee (attached pdf): We currently receive IPSAS financial statements from implementing partners. These refer to existing financial instruments agreements and apply the current IPSAS in force (IPSAS 29.) They are therefore not indicative of the financial statements that an implementing partner would prepare for InvestEU. As explained above, with IPSAS 41 soon replacing IPSAS 29, the IPSAS standard will be further aligned with IFRS. As an illustrative example, we therefore provide draft financial statements that include the changes introduced by IPSAS 41. These drafts give a comprehensive view of the financial statements we expect to receive.
5. Article 209 (4) of EU Regulation 2018/1046 ('Financial Regulation')

*For financial instruments and budgetary guarantees implemented under indirect management, the authorising officer responsible shall ensure that unaudited financial statements covering the period 1 January to 31 December prepared in compliance with the accounting rules referred to in Article 80 and with IPSAS, as well as any information necessary to produce financial statements in accordance with Article 82(2), be provided by the entities pursuant to points (c)(ii), (iii), (v) and (vi) of the first subparagraph of Article 62(1) by 15 February of the following financial year and that audited financial statements be provided by those entities by 15 May of the following financial year.*