

Comparative analysis between IFRS 9 and IPSAS 41 Financial Instruments

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Abstract. International Financial Reporting Standards (IFRS) are widely recognized in global accounting, yet they primarily serve the needs of profit-oriented entities. In contrast, public sector organizations operate under different imperatives, such as transparency, accountability, and service delivery. This paper explores how IPSAS 41 has been developed to address these objectives, offering a focused comparison with IFRS 9. The analysis draws on selected professional literature and official guidance, with emphasis on the treatment of concessionary loans. Findings indicate that IFRS 9 may inadequately reflect the realities of public finance, whereas IPSAS 41 provides a more appropriate framework for non-commercial settings. The study highlights key differences in classification, measurement, and reporting objectives, offering insights for policymakers and practitioners involved in public sector financial management. This paper aims to clarify the complexities involved in establishing unique standards and how heavily their formulation depends on the purposes they are intended to serve.

Key words: IFRS 9, IPSAS 41, public sector, profit-driven interests.

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1. Introduction

International Financial Reporting Standards (IFRS) are widely recognized in global accounting, yet they primarily serve the needs of profit-oriented entities. In contrast, public sector organizations operate under different imperatives, such as transparency, accountability, and service delivery. This paper explores how IPSAS 41 has been developed to address these objectives, offering a focused comparison with IFRS 9. The analysis draws on selected professional literature and official guidance, with emphasis on the treatment of concessionary loans. Findings indicate that IFRS 9 may inadequately reflect the realities of public finance, whereas IPSAS 41 provides a more appropriate framework for non-commercial settings. The study highlights key differences in classification, measurement, and reporting objectives, offering insights for policymakers and practitioners involved in public sector financial management. This paper aims to clarify the complexities involved in establishing unique standards and how heavily their formulation depends on the purposes they are intended to serve.

2. Comparison between IFRS 9 and IPSAS 41

There are different accounting rules which relate to specific types of entities when it comes to financial instruments. IFRS 9 and IPSAS 41 are two crucial standards that regulate the recognition, measurement, and reporting of financial instruments within specific sectors. IFRS 9, which is issued by the International Accounting Standards Board (IASB), is meant for the private sector especially for profit-seeking entities like companies and financial institutions. In contrast, IPSAS 41, which was developed by the International Public Sector Accounting Standards Board (IPSASB), is meant for the public sector including governments and not-for-profit entities. IPSAS 41 is predominantly based on IFRS 9, however, it makes certain modifications to accommodate the reporting requirements of the public sector. It is equally important to understand the scope and applicability, classification and measurement of financial instruments, and impairment models within these two standards because compliance and accurate reporting must be done within the regulatory framework.

The table below shows a summary of the major difference between IFRS 9 and IPSAS 41. This paper would touch only the scope and applicability, classification and measurement and the impairment models. Hedge accounting, being a bit more sensitive part of both IFRS 9 and IPSAS 9 will not be within the scope of the paper.

Table 1

Presents a concise comparative summary outlining the principal distinctions between IFRS 9 and IPSAS 41.

Aspect	IFRS 9	IPSAS 41
Issued by	International Accounting Standards Board (IASB)	International Public Sector Accounting Standards Board (IPSASB)
Applicability	Private sector and profit-oriented entities	Public sector entities, including government agencies and not-for-profit organizations
Objective	Provides principles for classification, measurement, impairment, and hedge accounting for financial instruments	Aligns public sector accounting for financial instruments with IFRS 9, while addressing specific needs of government and public sector entities
Classification & Measurement	Classifies financial assets based on business model and cash flow characteristics into: (1) Amortized cost, (2) Fair value through other comprehensive income (FVOCI), and (3) Fair value through profit or loss (FVPL)	Uses the same classification model as IFRS 9: Amortized cost, FVOCI, and FVPL
Impairment Model	Expected credit loss (ECL) model based on forward-looking information	Also adopts the ECL model, but with potential public sector adaptations
Hedge Accounting	More flexible and aligned with risk management activities	Similar to IFRS 9, but tailored for public sector requirements
Key Differences	Designed for commercial entities with a focus on profitability and investor needs	Tailored for the public sector, considering government financial reporting needs

Source: Own elaboration

As already mentioned, IFRS 9 and IPSAS 41 both address financial instruments, but their scope and applicability differ based on the type of entities and interests they serve. In the following paragraphs we will review some of the differences.

Scope

IFRS 9 applies to a very broad range of financial instruments, e.g. financial assets, financial liabilities, as well as, in rare cases, some contracts for non-financial items. However, it specifically excludes areas where other IFRS standards may apply, such as interests in subsidiaries, associates, and joint ventures, as well as employee benefits (IAS 19) and insurance contracts (IFRS 17). The primary focus lies on financial transactions within the private sector, particularly those which impact investors and market participants. IPSAS 41, while largely based on IFRS 9, is modified for the public sector. It covers similar financial instruments but as well excludes specific public sector arrangements that are covered by other standards, such as certain government-controlled financial instruments and social benefit transactions. The scope reflects the financial reporting needs of governments and municipalities, other public entities while striving to ensure that accountability and transparency are kept at the highest possible standards.

Applicability

IFRS 9 applies to profit-oriented organisations and companies, including corporations, banks, and financial institutions that prepare financial statements under IFRS. IFRS 9 is structured primarily to align with the expectations of the investors and to focus on risk management, asset valuation and financial performance. IPSAS 41 on the other side applies to public sector organizations which follow International Public Sector Accounting Standards (IPSAS). Under the scope of IPSAS fall government agencies and municipalities as well as public or international organisations. The financial reporting under IPSAS strives for emphasizing stewardship, transparency and efficient resource allocation rather than concentrating solely on profitability. In other words, IPSAS 41 is supposed to accommodate public sector financial realities such as non-exchange transactions and the unique nature of the governmental financial instruments. A good example is the United Nations Organization, as it has adopted IPSAS 41 in its 2023 financial statements for the first time.

Classification of Financial Instruments

Under both IFRS 9 and IPSAS 41, financial assets are categorized into three main groups

- Amortized Cost
- Fair Value Through Other Comprehensive Income and
- Fair Value Through Profit or Loss.

While these categories are the same under IFRS 9 and IPSAS 41, IPSAS 41 tailored the classification model to suit public sector needs. Public entities may hold financial assets not purely for-profit motives but for service delivery or policy objectives. For instance, a government might issue low-interest loans for housing projects (socially driven), which might not fit completely into the purely commercial classification model of IFRS 9. In other words, IPSAS 41 allows for flexibility in addressing such public sector-specific financial instruments. Another example is that unlike IFRS 9, IPSAS 41 reflects that public sector entities may not engage in financial liabilities for speculative purposes only, but rather as part of government financing operations. However, the classification principles for both remain largely the same.

Measurement of Financial Instruments

Financial instruments under both IFRS 9 and IPSAS 41 are measured (initial and subsequent measurement) based on their classification, but IPSAS 41 includes special considerations for the public sector. A good example of the difference in IPSAS 41 is its approach to concessionary loans—loans issued at below-market rates to achieve social or economic policy objectives. Under IFRS 9, financial instruments are measured at FV using market rates, but IPSAS 41 allows adjustments to better reflect public sector priorities. For instance, a government loan granted to small businesses at 1% interest would not be measured in the same way as a commercial bank loan under IFRS 9. Instead, IPSAS 41 may require additional disclosures, or different valuation approaches to better reflect the government's policy intent. In other words, IPSAS 41 tries to reflect that in the public sector, certain financial instruments—such as government-granted loans, concessionary loans, and other non-exchange transactions—may not have readily available market values. To address this, IPSAS 41 incorporates additional guidance on how to measure these instruments in a way that reflects the economic reality and public accountability rather than purely market-driven approach.

Impairment Model

IPSAS 41 and IFRS 9 are using the Expected Credit Loss (ECL) model for impairment of financial assets. This model replaced the incurred loss model used in previous accounting standards to provide for earlier recognition of credit losses. While the core principles of the ECL model are similar in both standards, IPSAS 41 incorporates some modifications to reflect the unique nature of public sector financial instruments, such as concessionary loans and government receivables.

IPSAS 41 recognizes that in the public sector, certain financial instruments—such as government-granted loans, concessionary loans, and other non-exchange transactions—may not have readily available market values. This can make the calculation of the expected Credit Loss much more complicated compared to private sector. We are all familiar of the ECL formula and the computation of the Expected Credit Loss. $PD \times LGD \times EAD$ is providing the ECL, whereas:

- EAD - the outstanding balance of the financial asset at the time of default.
- PD - the probability that the borrower will default on the obligation.
- LGD - the portion instrument that will not be recovered should a default occur

But how is the probability of default to be calculated? IFRS 9 uses the credit ratings, historical market data and/or default probabilities. The problem for IPSAS 41 emerges where market-based data is not available for some instruments. Then the standard allows approaches such as policy-driven risk assessments. The same difference applies for the losses given the event of default. IFRS 9 relies on historical market data, while IPSAS considers approaches such as government interventions in the past, restructuring, and/or social objectives that might in fact reduce real credit risk.

As IFRS 9 is the more well-known standard, the following will be dedicated to the additional guidance of IPSAS 41 as well as going through the concessionary loans in more details.

IPSAS 41 provides additional guidance on several key areas of financial instruments in the public sector, specifically in the areas of concessionary loans, fair value estimation when market data is unavailable, and enhancing disclosures for transparency and accountability.

Now, let us have a look at what concessionary loan is and review the differences (between IFRS 9 and IPSAS 41) such instrument triggers.

Concessionary loans – sometimes also referred to as “below-market-rate” loans – play a vital role in public sector financial management and development finance. These financial instruments are typically issued on favourable terms. These could be lower interest rates, longer repayment periods, or partial forgiveness – forgiveness, for instance, with the objective of providing economic or social support and not necessarily securing commercial returns. The International Public Sector Accounting Standards (IPSAS) and International Financial Reporting Standards (IFRS) both provide guidance on the accounting treatment of such instruments. However, there are important differences in how concessionary loans are recognized, measured and disclosed. Reasons for these differences are the underlying frameworks, the objectives and the users of these standards and the users of the financial information. This paper seeks to compare the treatment under IFRS 9 – Financial Instruments and IPSAS 41 – Financial Instruments on a very concise level, without any deep examples, but at the same time striving to emphasize the conceptual distinctions and practical implications.

The difference in the accounting treatment starts with the Frameworks and the objectives of IFRS and IPSAS. As already mentioned a few times above IFRS 9 is primarily designed for the private sector. The focus in the private sector is on providing information useful for investment and lending decisions with an emphasis on the profit of the organizations. As such, the standard concentrates on fair value measurement and the reflection of financial risk compared to the financial compensation against that risk.

In contrast IPSAS 41 is tailored to serve the purpose of the public sector. It recognizes that public sector entities often enter into transactions not driven by purely market interests. This includes providing loans at below-market terms to achieve policy objectives. Accordingly, IPSAS 41 allows for a different treatment of concessionary loans to better reflect the economic substance and policy intent of such transactions.

Under IFRS 9, all financial assets are initially recognized at fair value taking into account the transaction costs (of course depending on the classification). Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants”. When a loan is provided on concessional terms, the fair value is typically lower than the transaction price. The difference between the transaction price and the fair value is recognized immediately as a loss in profit or loss, unless it qualifies as a capital contribution or another type of equity transaction. (<https://www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/>).

Let us put a simple example down - for instance, a corporation issuing a loan at a 2% interest rate when the actual market rate is 4% would calculate the present value of future cash flows discounted at the market rate. So, the difference between the nominal amount and the present value is recorded as loss in the PL at inception. This approach can also be reviewed as something that reflects the economic cost of issuing loans at below-market rates. This example is also to be found in the IFRS 9 Foundation paper from 2014 (IFRS Foundation (2014). IFRS 9 Financial Instruments).

Table. 2

Comprehensive display of the difference in the treatment of concessionary loans.

Issued by	International Accounting Standards Board (IASB)	International Public Sector Accounting Standards Board (IPSASB)
Applicability	Private sector and profit-oriented entities	Public sector entities, including government agencies and not-for-profit organizations

Objective	Provides principles for classification, measurement, impairment, and hedge accounting	Aligns public sector accounting with IFRS 9, while accommodating public policy and service delivery
Recognition of Concession	The difference between transaction price and fair value is recognized as a day-one loss	The difference is treated as a non-exchange expense (grant) under IPSAS 23
Subsequent Measurement	Amortized cost using the effective interest rate (EIR) based on fair value	Amortized cost; EIR applies only to financial portion , subsidy separated and treated accordingly
Impairment Model	Expected Credit Loss (ECL) model, forward-looking	Also applies ECL model, but adapted for public sector considerations
Presentation of Subsidy	No separate recognition of subsidy component	Subsidy portion is explicitly presented as a transfer or non-exchange component
Hedge Accounting	Flexible and aligned with private sector risk management strategies	Similar to IFRS 9, but adapted for public sector objectives and risk exposures
Key Differences	Focused on profitability, investment returns, and financial risk	Focused on accountability, transparency , and achievement of social and policy goals
Suitability for DFIs/NGOs	May lead to distorted performance due to profit-based logic	Provides more faithful representation of concessionary lending aligned with public sector mission

Source: Own elaboration

What is the case with IPSAS 41? It also requires initial measurement at fair value but also contains specific provisions for concessionary loans. In many instances IPSAS 41 is to be read in conjunction with other standards. These are for example IPSAS 19 (the standard for provisions, contingent liabilities and contingent assets) and IPSAS 23 – Revenue from Non-Exchange Transactions. The standard allows for the separation of the social benefit component from the financial instrument. When the fair value of the loan is less than the disbursed amount, the difference is not recognized as an immediate loss but instead treated as a non-exchange transaction (i.e., a transfer) in line with IPSAS 23 (IPSASB (2018). IPSAS 41: Financial Instruments).

This approach enables public sector entities to highlight the dual nature of concessionary loans—partly financial asset and partly policy-driven transfer—ensuring that the subsidization element is properly disclosed rather than masked as a commercial loss (IPSASB (2018). IPSAS 41: Financial Instruments).

Subsequent Measurement

In IFRS 9, subsequent measurement of financial assets depends on their classification into one of the well-known three categories:

- Amortized cost,
- Fair value through other comprehensive income (FVOCI), or
- Fair value through profit or loss (FVTPL).

The concessionary loans are measured at amortized cost and use the effective interest rate method (EIR), of course assuming that they meet the criteria to be measured under the AC category. The EIR is computed at initial recognition using the fair value of the loan and expected cash flows. The subsequent interest income is recognized using this effective interest rate and leads, in most of the cases, to higher interest income than the nominal interest. This reflects and evens out the initial economic loss.

Quite the same under IPSAS 41 world, concessionary loans are also measured at amortized cost in most of the cases and exactly the same - they use the EIR method derived from the fair value at initial recognition. Here comes the big difference in both methods - the recognition of the social benefit component. This component is separated and this allows the amortized cost calculation to account only for the financial portion of the loan. As such, the accounting is more closely aligned with the dual purpose of such kind of instruments.

Impairment and Expected Credit Losses

IFRS 9 introduced a forward-looking Expected Credit Loss (ECL) model for impairment, replacing the incurred loss model. Under this model, entities must recognize 12-month ECLs from initial recognition, and lifetime ECLs if there is a significant increase in credit risk. For concessionary loans, especially when provided to high-risk borrowers such as developing countries or social programs, this can result in significant impairment charges, compounding the initial loss recognized at fair value.

IPSAS 41 adopts a similar ECL model, recognizing the need for forward-looking impairment assessments. However, the policy motivation of concessionary loans is considered in practice, and the recognition of ECLs can be more nuanced, particularly when combined with disclosures about the nature of the loans and the entity's policy intent. While impairment must still be recognized, the overall presentation and narrative in the financial statements may be more flexible in explaining the rationale and expected outcomes of such lending practices.

Disclosures

Both IFRS 9 and IPSAS 41 include extensive disclosure requirements. Under IFRS 7 (which complements IFRS 9), entities must provide information about the significance of financial instruments, including the methods and assumptions used in estimating fair value, risk exposures, and how those risks are managed.

IPSAS 30 serves as the equivalent disclosure standard for IPSAS 41. It similarly requires entities to disclose the nature and extent of risks arising from financial instruments. However, public sector disclosures typically include additional context about the purpose of financial instruments, particularly where concessionary terms are involved. This may include the policy objectives of the loans, criteria for selection of beneficiaries, and the expected social or economic outcomes, enhancing transparency and accountability.

Practical Implications

The treatment of concessionary loans under IFRS 9 can create distortions for entities that issue such loans as part of public service or development mandates. Recognizing immediate losses and higher-than-actual interest income can obscure the true financial performance of these organizations. Moreover, the need to assess impairment based solely on credit risk without considering the broader context can lead to undue volatility in reported results.

In contrast, IPSAS 41 provides a more faithful representation of concessionary loans in public sector settings. By recognizing the non-exchange component as a separate transaction and aligning measurement with policy objectives, it offers a balanced approach that respects both financial reporting principles and the unique nature of public sector activities.

Conclusion on concessionary loans

While both IFRS 9 and IPSAS 41 are based on similar underlying principles for financial instruments, their application to concessionary loans reveals fundamental differences rooted in the objectives of financial reporting. IFRS 9 focuses on fair value and investor decision-usefulness, leading to the recognition of immediate losses and standardized impairment, whereas IPSAS 41 accommodates the dual-purpose nature of public sector loans, recognizing that such instruments serve both financial and social functions. Entities operating in the public sector or providing development finance benefit from the flexibility and contextual sensitivity of IPSAS 41, while private sector entities using IFRS 9 must remain mindful of the potential misalignment between accounting treatment and the underlying intent of concessionary lending. These differences underscore the importance of selecting standards that appropriately reflect an entity's mission and stakeholder needs, particularly as global financial reporting continues to evolve.

3. Conclusion

Even though both IPSAS and IFRS are built on the same foundation when it comes to the general handling of financial instruments, their respective goals, areas of application, and guiding principles differ significantly. These differences become particularly evident in how each standard addresses unique circumstances such as concessionary loans, where financial reporting intersects with broader policy or developmental objectives.

IFRS 9 is tailored for businesses operating in the private sector—companies whose financial reports serve stakeholders such as investors, analysts, and creditors. These users need data that helps assess profitability, gauge financial risks, and support decisions on resource allocation. The standard therefore emphasizes market-based valuation, incorporates forward-looking credit loss models, and stresses fair value recognition from the outset to present an accurate financial picture rooted in economic performance and support investment decisions.

IPSAS 41, on the other hand, was developed with the needs of public sector institutions in mind—governments, multilateral agencies, and non-profit entities. While it borrows much of its technical structure from IFRS 9, IPSAS 41 introduces adjustments to ensure the information presented reflects the public sector's emphasis on service delivery, prudent use of public funds, and policy accountability. When entities issue loans at below-

market interest rates for social or developmental purposes, IPSAS 41 allows the financial and non-financial components of those loans to be treated separately.

While it's true that transparency and accountability are vital across all sectors—including private enterprises aiming to build trust and ensure sustainable operations—the motivations driving financial reporting differ. Because the structure of the two frameworks appears similar, there's a risk that they may be applied interchangeably—especially by practitioners working in hybrid entities such as development banks or NGOs. However, using the wrong framework can lead to distorted financial statements and undermine the quality of financial decision-making. It's therefore essential that entities carefully assess which standard applies based on their operational mandate and reporting obligations. (https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/government-public-sector/ey-ipsas-41-financial-instruments.pdf)

To sum up, IFRS 9 and IPSAS 41 may align in technical aspects, but their reporting philosophies are distinct. A sound grasp of these nuances is crucial for ensuring that financial reports not only meet compliance requirements but also fulfil their broader purpose: to inform, to explain, and to serve their stakeholders truthfully

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