

Meeting: IPSASB Consultative Advisory Group

Meeting Location: Toronto, Canada

Meeting Date: June 18, 2018

From: Paul Mason

Agenda Item 7

For:

- Approval
- Discussion
- Information

NON-EXCHANGE EXPENSES

Project summary	The aim of the project is to develop a standard(s) that provides recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits.	
Meeting objectives	Topic	Agenda Item
Discussion items	Public Sector Performance Obligation Approach	7.1
	Guidance on Collective Services	7.2
Other supporting items	IPSASB Due Process Checklist Checklist (condensed to included portions relevant to the CAG)	Appendix A
	Useful Links	Appendix B
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Public Sector Performance Obligation Approach

Background

1. In its Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, the IPSASB expressed the Preliminary View (PV) that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the Public Sector Performance Obligation Approach (PSPOA), which is the counterpart to the IPSASB's preferred approach for revenue.
2. If the IPSASB adopted this approach, the accounting for grants, contributions and other transfers contain either performance obligations or stipulations would mirror the accounting for revenue recognition for those transactions.

Issue for CAG discussion

3. A majority of respondents who commented either agree or partially agree with the PV: However, the number of respondents who agree with the PV is a minority of those who commented, suggesting that a number of issues will need to be considered.

Response to Preliminary View	Number of Respondents
Agree	16
Partially Agree	9
Disagree	8
No Clear Preference Expressed	0
No Comment	5
Total	38

4. The advantages of using the PSPOA when accounting for grants, contributions and other transfers contain either performance obligations or stipulations are as follows:
 - Symmetrical accounting is easier for preparers and users to understand.
 - Many grants, contributions and other transfers take place between different levels of government (for example, a state government may give a grant to a municipality). Where Whole of Government Accounts are prepared, the consolidation will be easier if the accounting is symmetrical.
5. Concerns about using the PSPOA when accounting for grants, contributions and other transfers contain either performance obligations or stipulations fell into two broad categories:
 - *Conceptual Issues*. Some respondents considered that a valid expectation might arise once the funding is approved, and at that point, an expense could not be avoided. This might be at an earlier point than the recipient would recognize revenue. Some respondents also questioned whether a resource provider still controls an asset that has already been transferred to a resource

recipient, based only on the fact that the resource recipient has not yet fulfilled performance obligations. Some respondents commented that the recognition of non-exchange expenses from a resource provider perspective should encompass a distinct set of considerations and recognition issues in contrast to the recognition of revenue by the resource recipient. It cannot be assumed that the pattern of revenue recognition by the resource recipient should mirror the pattern of expense recognition by the resource provider.

- *Practical issues.* Some respondents were concerned that grantors may have difficulties in determining the extent to which a grantee has satisfied a performance obligation unless this information is periodically reported. Some commented that a platform needs to be provided for the exchange of information between resource providers and resource recipients about the results of obligations performed. Staff notes that in some jurisdictions, grant recipients are required to provide evidence of how the grant has been used, which addresses this concern.
6. The IPSASB will be considering the technical merits of these arguments at its June 2018 meeting. The CAG is asked to advise the IPSASB on whether there are any public interest issues that they should take into account.

Question to the CAG

- Adopting the PSPOA for expenses in relation to certain grants, contributions and other transfers may make the transactions easier for users to understand, but practitioners may face practical difficulties in obtaining the information needed. In addition, there are questions about whether, conceptually, the recognition criteria for the expense and the related revenue are met at the same time. Are there any public interest issues that the IPSASB should take into account in weighing these questions?

Guidance on Collective Services**Background**

1. Collective services are those ongoing activities of governments, such as street lighting and defense, that provide services for the population as a whole, and from which individuals cannot be excluded.
2. In its Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, the IPSASB expressed the Preliminary View (PV) that because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered. Respondents generally supported this preliminary view.
3. At its March 2018 meeting, the IPSASB agreed that there is no obligating event related to non-exchange transactions for collective services. The IPSASB did not consider it appropriate to come to a final decision regarding universally accessible services (such as universal healthcare) prior to considering the responses to Exposure Draft (ED) 63, *Social Benefits*.

Issue for CAG discussion

4. Collective services such as street lighting and defense do not give rise to a liability for non-exchange transactions because there is no obligating event prior to the delivery of the service.
5. In providing collective services, a government incurs expenses, and may acquire assets, through exchange transactions. Examples include the cost of electricity for street lighting, the salaries paid to defense staff, and the acquisition of assets used in delivering those services. Because the liabilities and expenses relating to the exchange transactions will arise at, or prior to, the delivery of the services, it is not necessary to separately recognize a non-exchange expense or liability.
6. It follows that, if there is no separate recognition of a non-exchange expense or liability, no measurement issues can arise.
7. Similarly, if there is no separate recognition of a non-exchange expense or liability, it is likely that no separate disclosure will be required. Appropriate disclosures are likely to be required by the existing requirements in relation to the exchange transaction along with the requirements in relation to segment reporting. A requirement to disclose expenses in year for material classes of collective services could be included if this was considered important.
8. This analysis raises a question for the IPSASB. As no recognition and measurement requirements are needed for collective services, where should any guidance be provided? Staff has identified the following options:

Option	Guidance Included	Other Considerations
Separate IPSAS.	<ul style="list-style-type: none"> • Definition of collective services. • No recognition or measurement requirements. • A requirement to disclose expenses in year for material classes of collective services (if agreed by IPSASB). • The bulk of the standard would be (non-authoritative) Bases for Conclusions (BCs) explaining why the standard does not include recognition and measurement requirements, and explaining that other standards and the Conceptual Framework provide the basis for accounting for these transactions. 	<p>The advantage of this approach is that a separate IPSAS could be issued quickly.</p>
<p>Include collective services in the wider non-exchange expenses IPSAS.</p>	<ul style="list-style-type: none"> • Definition of collective services. • No recognition or measurement requirements. • A requirement to disclose expenses in year for material classes of collective services (if agreed by IPSASB). • The bulk of the incorporated material would be either (non-authoritative) BCs or an authoritative or non-authoritative Appendix explaining why the standard does not include recognition and measurement requirements for collective services, and explaining that other standards and the Conceptual Framework provide the basis for accounting for these transactions. 	<p>Under this approach, guidance on collective services could not be issued prior to wider non-exchange expenses standard.</p>

Option	Guidance Included	Other Considerations
<p>Include collective services as amendments to IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.</p>	<ul style="list-style-type: none"> • Definition of collective services. • No recognition or measurement requirements. • A requirement to disclose expenses in year for material classes of collective services (if agreed by IPSASB). • The bulk of the incorporated material would be authoritative Application Guidance explaining why the standard does not include specific recognition and measurement requirements for collective services, and explaining that other standards and the Conceptual Framework provide the basis for accounting for these transactions. 	<p>The advantage of this approach is that amendments to IPSAS 19 could be issued quickly. The disadvantage is that IPSAS 19 deals with uncertainty, whereas there would be no uncertainty over the recognition of expenses in respect of collective services. However, there is no other more appropriate IPSAS to amend.</p>
<p>Separate Interpretation</p>	<ul style="list-style-type: none"> • Definition of collective services. • Authoritative discussion of issues for recognition and measurement, explaining how the other standards and the Conceptual Framework provide the basis for accounting for these transactions. • A requirement to disclose expenses in year for material classes of collective services (if agreed by IPSASB). 	<p>The development of interpretations (similar to IFRICs issued by the IASB) would result in a new type of pronouncement for IPSASB. This would require the appropriate due process to be agreed. The interpretation would most naturally be an interpretation of the wider non-exchange expenses standard, and therefore issued at the same time or later. However, it would be possible to draft the interpretation as an interpretation of existing exchange expenses standards plus the Conceptual Framework, allowing for the interpretation to be issued earlier.</p>

Option	Guidance Included	Other Considerations
<p>Staff Question and Answer Document (Staff Q&A)</p>	<ul style="list-style-type: none"> • Non-authoritative discussion of issues for recognition and measurement, explaining that other standards and conceptual framework provide the basis for accounting for these transactions. 	<p>A Staff Q&A would be non-authoritative, so the definition of collective services (and any disclosure requirement) would need to be included in the wider non-exchange expenses standard. Such a document could be developed very quickly as there is no due process, but without the definition and any disclosure requirement, its usefulness would be limited.</p>

9. On balance, staff is recommending that the guidance on accounting for collective services be developed as amendments to IPSAS 19. This would allow for the issuance of guidance in the timeliest manner, without issuing an IPSAS that has almost no requirements. Staff considers this to be in the public interest.

Question to the CAG

- Does the CAG agree that the public interest is best served by developing the guidance on accounting for collective services as amendments to IPSAS 19?

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Appendix A

IPSASB Due Process Checklist Checklist (condensed to included portions relevant to the CAG)

Project: Non-Exchange Expenses

#	Due Process Requirement	Yes/No	Comments
A. Project Brief			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSASB considered the project brief at its March 2015 meeting as part of its Work Plan discussions (see Agenda Item 10.3).
A2.	The IPSASB has approved the project in a public meeting.	Yes	See the minutes of the March 2015 IPSASB meeting (section 10).
A3.	The IPSASB CAG has been consulted on the project brief.	N/A	This step is not in effect for this project.
B. Development of Proposed International Standard			
B1.	The IPSASB has considered whether to issue a consultation paper, or undertake other outreach activities to solicit views on matters under consideration from constituents.	Yes	The IPSASB agreed to develop a single Consultation Paper covering the non-exchange expenses and revenue projects at its December 2015 meeting (see Agenda Item 8.5 and the minutes of December 2015 IPSASB meeting (section 8)). The IPSASB issued the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses , in August 2017. The minutes of the June 2017 IPSASB meeting (section 5) document the IPSASB review and approval of the consultation paper issued.
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	Yes	At its March 2018 meeting, the IPSASB discussed the responses to the Consultation Paper. (See Agenda Item 12 and section 12 of the draft minutes of the March 2018 meeting–included at Appendix C to this Agenda Paper–for the review of responses to the Non-Exchange sections of the consultation paper.)

Non-Exchange Expenses (IPSASB Due Process Checklist)
 IPSASB CAG Meeting (June 2018)

#	Due Process Requirement	Yes/No	Comments
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	Yes	<p>The IPSASB will consider the comments from the CAG discussions together with those from respondents to the consultation paper at its June 2018 meeting (see IPSASB Agenda Item 6 and IPSASB Agenda Item 11).</p> <p>The results of the IPSASB's deliberations on those comments received from the CAG will be reported back to the CAG at its December 2018 meeting.</p>
<i>D. Consideration of Respondents' Comments on an Exposure Draft</i>			
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	No	
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.	No	

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Appendix B

Useful Links

[Consultation Paper: *Accounting for Revenue and Non-Exchange Expenses*](#)

[At a Glance: Consultation Paper Summary: *Accounting for Revenue and Non-Exchange Expenses*](#)
(summary document)

[Accounting for Revenue and Non-Exchange Expenses](#) (webinar)

IPSASB Non-Exchange Expenses [project page](#)

Extract from draft minutes of the March 2018 IPSASB meeting

12. Non-Exchange Expenses (Agenda Item 12)

12.1. Staff introduced the session, noting that the IPSASB had already discussed some of the issues in earlier sessions on Revenue and Social Benefits. The analysis of respondents to the CP by region, function and language had already been presented as part of the Revenue session, and was not discussed again in this session.

Collective and Universally Accessible Services

12.2. Staff introduced the first agenda paper discussing collective and universally accessible services. Staff commented that there was generally strong support for Preliminary Views 5 and 6 in the CP. However, respondents raised some concerns, particularly:

- Consistency with the Social Benefits project (and the distinction between social benefits and collective services and universally accessible services);
- Questioning the view that no present obligation arises for collective services and universally accessible services; and
- Whether any non-exchange expenses arise for collective services and universally accessible services, or whether all the expenses are exchange expenses.

12.3. Because of the link with the social benefits project, staff recommended that no final decisions be taken until the review of responses to ED 63, *Social Benefits* was considered by the IPSASB. The IPSASB agreed with this recommendation.

12.4. Members discussed the types of expenses involved in collective services and universally accessible services. They noted that there are in effect two transactions – the purchase of an asset for goods or services (such as electricity for street lighting or the salaries paid for policing, defense and medical services) and the use of that asset to provide services to the public. The first transaction is an exchange transaction, the second transaction is a non-exchange transaction. The question that needs to be resolved is whether a liability for the second transaction can arise prior to the acquisition of the asset under the first transaction.

12.5. Members commented that the answer to this question might be different for collective services and universally accessible services. They noted that universally accessible services might have eligibility criteria (such as residency) whereas collective services have no such criteria, as people cannot be excluded from the benefits of collective services. They also noted that enforceability may be a relevant factor. For some services, the public will have no recourse if a service is not provided, which suggests there can be no liability.

12.6. Following the discussion, the IPSASB **instructed** staff to:

- Develop clear definitions of collective services and universally accessible services, taking into account the responses to ED 63.
- Develop clear descriptions of how the three way relationships (resource provider, resource recipient and beneficiaries) give rise to assets, liabilities, revenue and expenses for collective services and universally accessible services. The IPSASB considered that collective services

should be more straightforward, and should be addressed first. This should include draft paragraphs for an ED.

- Review the previous papers to draw on previous work and examples dealing with these issues.

Public Sector Performance Obligation Approach

12.7. Staff introduced the agenda paper discussing the Public Sector Performance Obligation Approach (PSPOA). Staff noted that while there was support for the use of this approach, it was less clear cut than for the use of the approach for recognizing revenue. The key issues from the responses identified by staff were:

- Different views of respondents as to the merits of aligning revenue and expense accounting;
- Different views about whether stipulations are performance obligations; and
- Some support for using the extended obligating event approach or an alternative approach for accounting for all non-exchange expenses.

12.8. Staff noted that similar issues had been discussed in the earlier session on the Revenue project, and raised the question of the extent to which the IPSASB would wish to explore these issues ahead of decisions being taken in the Revenue project.

12.9. The Chair noted that constituents supported the use of the PSPOA for recognizing revenue, but that members wished to consider this further, based on a review of some examples of revenue transactions. The Chair considered it necessary for this discussion to take place prior to making decisions with regard to non-exchange expenses.

12.10. The IPSASB **instructed** staff to develop the non-exchange expenses side of the revenue examples, subject to staff having sufficient time to do so. The IPSASB agreed that the analysis of the responses to social benefits took priority over developing the non-exchange expenses examples.

12.11. Members noted that previous examples often suggested that there would be an asset for the resource provider. There were some concerns over this. Some members commented that they were less convinced by the alternative model for non-exchange expenses provided by one respondent than by the equivalent model for revenue.

12.12. Members commented that the PSPOA is more difficult to apply to non-exchange expenses for practical reasons, for example obtaining evidence that performance obligations have been satisfied. There could be particular difficulties in tripartite arrangements. Staff commented that respondents had raised concerns not with the conceptual approach but with the practical issues such as evidence.

12.13. A member noted that IFRS 15 accepts that an asset will be recognized when a service is received, but that the asset is immediately consumed. The member also commented that, as transactions may involve a combination of exchange and non-exchange transactions, the title of the project may need to be considered.

12.14. A member noted that the IPSASB would consider at its next meeting whether to distinguish between revenue with performance obligations and revenue without performance obligations, and that this could have implications for the non-exchange expenses project.

12.15. The Chair noted the importance of examples, and requested that members provide any examples they have to staff by the end of the week following the meeting.

12.16. The IPSASB **instructed** staff to review the responses again once the IPSASB has agreed a future direction, to see whether this direction addresses some of the concerns raised. Staff commented that most of these issues are likely to fall within the revenue project. However, consistency with other projects will be a significant factor in developing the non-exchange expenses project.

Non-Contractual Receivables – Initial Measurement

12.17. Staff presented the agenda paper on the initial measurement of non-contractual receivables. Staff noted that there was generally good support for the IPSASB's preliminary view that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s), with any amount expected to be uncollectable identified as an impairment.

12.18. Staff reported the key issues identified by respondents:

- Entities should be required to disclose reasons for any significant uncollectable amounts;
- Legitimate deferrals will affect the fair value of the amount collectable;
- Questions about how to determine the face value when applying statistical models referred to in IPSAS 23;
- Whether the initial measurement of non-contractual receivables should be dependent on revenue recognition model; and
- Which impairment model should be used?

12.19. Staff also reported that some respondents had questioned what was meant by “non-contractual receivables”. These respondents were comfortable with the proposal for statutory receivables such as taxation, but had some concerns over the use of the face value for other non-contractual receivables.

12.20. One member questioned whether non-statutory, non-contractual receivables could exist. Staff provided some examples such as certain grants and bequests. Staff also noted that some binding arrangements that are not contractual are already within the scope of the Financial Instruments projects. The IPSASB **instructed** staff to ensure that definitions are developed that are sufficiently clear.

12.21. Members commented that in many jurisdictions, there is a legal requirement to report the legislated amount for tax revenue. They noted that jurisdictions would need to align this legislation with the requirements of financial reporting. The use of a separate allowance account might address this.

12.22. The IPSASB **decided** that initial measurement should be related to revenue recognition, and would be dependent on decisions being taken in the revenue project. The IPSASB **instructed** staff to bring proposals back to a future meeting, noting that this would be no earlier than September 2018, and might be later.

Non-Contractual Receivables – Subsequent Measurement

12.23. Staff presented the agenda paper on the subsequent measurement of non-contractual receivables. Staff noted that respondents had not provided a consistent view, and also noted that subsequent measurement may be dependent on the initial recognition model.

12.24. One member noted that, as most receivables will be collected within one year, the cost and amortized cost models may produce the same result. This member considered fair value was the least useful approach. Staff noted that there had been discussions earlier in the meeting about a practical

expedient that no discounting would be required for financial instruments to be settled within twelve months. If this expedient was adopted, the cost and amortized cost models would be consistent in most cases.

12.25. The Chair noted that further progress with the Measurement and Financial Instruments projects would provide more guidance for this issue.

12.26. The IPSASB **instructed** staff to bring proposals back to a future meeting, noting that this would be no earlier than September 2018, and might be later.

Non-Contractual Payables – Subsequent Measurement

12.27. Staff presented the agenda paper on the subsequent measurement of non-contractual payables. Staff outlined the options supported by respondents. In staff's view, the cost of fulfillment approach and IPSAS 19 requirement would, in practical terms, give the same result, and that, taken together, these two options had significant support.

12.28. The Chair noted that measurement is easier for assets than liabilities. The Measurement project may need to consider amendments to IPSAS 19, particularly in respect of probability thresholds and narrowing the concepts of contingent assets and liabilities. The IASB may also review IAS 37, the equivalent standard, once their conceptual framework has been issued, although no dates have been set.

12.29. Staff commented that it would be helpful to explore whether subsequent measurement should be dependent on the expense recognition model, and also whether the certainty of the payment was a factor. Further progress on the Social Benefits, Non-Exchange Expenses and Measurement projects would help clarify some of these issues.

12.30. The IPSASB **instructed** staff to bring proposals back to a future meeting once further progress on other projects has been made. It was noted that this would be no earlier than September 2018, and might be later.

Next steps

12.31. Staff will carry out further analysis of the issues identified above in order to inform discussion at the June and September meetings.