

Meeting: International Public Sector Accounting Standards Board
Meeting Location: Toronto, Canada
Meeting Date: June 19–22, 2018
From: Paul Mason

Agenda Item 11

For:
 Approval
 Discussion
 Information

NON-EXCHANGE EXPENSES

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|---|---|--------------------|
| 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 |
| Project management | Decisions up to March 2018 Meeting | 11.1.1 |
| | Instructions up to March 2018 Meeting | 11.1.2 |
| | Non-Exchange Expenses Road Map | 11.1.3 |
| Decisions required at this meeting | Collective Services | 11.2.1 |

There is considerable overlap between some *Non-Exchange Expenses*, *Social Benefits* and *Revenue* Agenda Items. To avoid replicating material, project management material (Decisions up to the March 2018 meeting; Instructions up to the March 2018 meeting; and project Road Maps), as well as some other supporting items are provided in one Agenda Item, with cross-references in other Agenda Items.

DECISIONS UP TO MARCH 2018 MEETING

| Date of Decision | Decision |
|-------------------------|---|
| June 2017 | All decisions up to the June 2017 meeting were reflected in the Consultation Paper, <i>Accounting for Revenue and Non-Exchange Expenses</i> . |

INSTRUCTIONS UP TO MARCH 2018 MEETING

| Meeting | Instruction | Actioned |
|---------------|--|---|
| March 2018 | The IPSASB instructed staff to review the responses regarding the public sector performance obligation approach (PSPOA) again once the IPSASB has agreed a future direction, to see whether this direction addresses some of the concerns raised. | This will be undertaken once the IPSASB has made decisions regarding the PSPOA. |
| March 2018 | The IPSASB instructed staff to develop the non-exchange expenses side of the revenue examples relating to the PSPOA. | Agenda Item 9.2.3 |
| March 2018 | <p>The IPSASB instructed staff to:</p> <ul style="list-style-type: none"> • 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. | <p>Agenda Item 6.2.2</p> <p>Agenda Item 11.2.1</p> <p>Considered in developing Agenda Items</p> |
| December 2017 | As part of the review of the Work Plan, the IPSASB instructed staff to consider non-exchange expenses as two separate streams, <i>Collective and Individual Services</i> , and <i>Grants and Other Transfers</i> . | |
| December 2017 | The IPSASB requested staff consider how the Specific Matters for Comment and Preliminary Views relate to the different revenue and non-exchange expenses project streams. | |
| June 2017 | All instructions up to the June 2017 meeting were reflected in the Consultation Paper, <i>Accounting for Revenue and Non-Exchange Expenses</i> . | |

NON-EXCHANGE EXPENSES ROAD MAP

| Meeting | Objective: IPSASB to consider: | |
|----------------|---|--|
| | Collective and Individual Services | Grants and Other Transfers |
| June 2018 | <ol style="list-style-type: none"> 1. Consideration of responses to Social Benefits ED 2. Discussion of issues | <ol style="list-style-type: none"> 1. Consideration of responses to Social Benefits ED 2. Discussion of issues |
| September 2018 | <ol style="list-style-type: none"> 1. Discussion of issues | <ol style="list-style-type: none"> 1. Discussion of issues |
| December 2018 | <ol style="list-style-type: none"> 1. Discussion of issues 2. Review first draft of propose ED | <ol style="list-style-type: none"> 1. Discussion of issues |
| March 2019 | <ol style="list-style-type: none"> 1. Review of draft ED 2. Approval of ED | <ol style="list-style-type: none"> 1. Discussion of issues 2. Review first draft of proposed ED |
| June 2019 | Consultation Period | <ol style="list-style-type: none"> 1. Review of draft ED |
| September 2019 | | <ol style="list-style-type: none"> 1. Review of draft ED 2. Approval of ED |
| December 2019 | <ol style="list-style-type: none"> 1. Review of responses | Consultation Period |
| March 2020 | <ol style="list-style-type: none"> 1. Initial discussion on issues raised 2. Review first draft of proposed IPSAS | |
| June 2020 | <ol style="list-style-type: none"> 1. Review of draft IPSAS 2. Approval of IPSAS | <ol style="list-style-type: none"> 1. Review of Responses |
| September 2020 | | <ol style="list-style-type: none"> 1. Initial discussion of issues raised |
| December 2020 | | <ol style="list-style-type: none"> 1. Further discussion of issues raised |
| March 2021 | | <ol style="list-style-type: none"> 1. Review first draft of proposed IPSAS |
| June 2021 | | <ol style="list-style-type: none"> 1. Review of draft IPSAS 2. Approval of IPSAS |

Collective Services**Questions**

1. The IPSASB is asked to determine the nature and location of the guidance to be provided about accounting for collective services.

Detail*Background*

2. Collective services are those ongoing activities of governments, such as street lighting and defense, provided for the population as a whole, and from which individuals cannot be excluded. The nature of collective services is discussed in Agenda Item 6.2.2.
3. In its Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, the IPSASB expressed the Preliminary View (PV) that there “is no obligating event related to non-exchange transactions for universally accessible services and collective services, therefore resources applied for these types of non-exchange transactions should be expensed as services are delivered.” Respondents generally supported this preliminary view, although some questioned whether universally accessible services and collective services were exchange or non-exchange transactions.
4. 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*. Consequently, this Agenda Item considers the accounting for collective services only. Depending on the recognition point for social benefits that is agreed by the IPSASB, the rationale may apply equally to universally accessible services. If so, staff will reflect this in the Agenda Papers for the September 2018 meeting.

Accounting Treatment

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 and consumption of assets used in delivering those services. Because the liabilities and expenses relating to these transactions will arise prior to, or at, the delivery of the services, a non-exchange expense or liability is not recognized separately from the exchange expense or liability.
6. Collective services such as street lighting and defense do not give rise to a separate liability for non-exchange transactions because there is no obligating event prior to the delivery of the service.
7. It follows that, if there is no separate recognition of a non-exchange expense or liability, no measurement issues can arise.

8. 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.
9. Staff has not identified any consequences for IPSAS 1, *Presentation of Financial Statements*. Paragraph 109 of IPSAS 1 requires an entity to present “an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is faithfully representative and more relevant.” Because collective services are provided by means of exchange transactions, a classification using the nature of expense method (presenting, for example, employee benefit costs, depreciation etc.) would be unaffected. The function of expense method requires the entity to present expenses relating to its major functions, for example, health expense and education expenses. Because these will vary from entity to entity, IPSAS 1 is not prescriptive, and only provides a short example in the main text. The (non-authoritative) Implementation Guidance includes a longer example of expenses classified by function, which currently includes a lines for defense and social protection, amongst others. The IPSASB may wish to consider amending this example.

Nature of Guidance

10. As no recognition and measurement requirements are needed for collective services, this raises the question of where any guidance should be provided, and the nature of that guidance. 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. | The advantage of this approach is that a separate IPSAS could be issued relatively quickly, although an Exposure Draft would be required. |

| Option | Guidance Included | Other Considerations |
|--|--|--|
| <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> |
| <p>Include collective services as Application Guidance 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 relatively quickly, although an Exposure Draft would be required. 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> |

| Option | Guidance Included | Other Considerations |
|---------------------------------------|---|--|
| <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. There are also questions about whether the IPSASB should adopt a new form of pronouncement without consultation (staff notes that interpretations were not discussed in the <i>Strategy and Work Plan 2019-2023</i> consultation document) and may raise expectations that interpretations would be issued in other areas.</p> <p>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. It is likely that an interpretation would also require public consultation, although perhaps for a shorter period than an IPSAS.</p> |

| Option | Guidance Included | Other Considerations |
|---|---|--|
| Staff Question and Answer Document (Staff Q&A) | <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. | 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. |

11. On balance, staff recommends that the guidance on accounting for collective services be developed as Application Guidance 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 that this would be in the public interest.
12. The advantages and disadvantages of issuing guidance on accounting for collective services as Application Guidance to IPSAS 19 are as follows:

| Advantages | Disadvantages |
|---|---|
| <ul style="list-style-type: none"> Stakeholders have indicated that guidance is needed to ensure consistent financial reporting. Authoritative guidance can be issued in a timely manner. The guidance can be issued for consultation at the same time as the <i>Social Benefits</i> IPSAS is issued, which would in part address constituents' concerns that the requirements for accounting for social benefits, universally accessible services and collective services should be developed simultaneously. | <ul style="list-style-type: none"> IPSAS 19 deals with uncertainty, whereas there would be no uncertainty over the recognition of expenses in respect of collective services. Guidance on accounting for collective services would still be an Exposure Draft when the <i>Social Benefits</i> IPSAS was issued. |

13. An initial draft of the guidance, based on the assumption that the guidance will be provided as amendments to IPSAS 19, is included as [Appendix A](#) to this Agenda Item.

Decisions required

14. The IPSASB is asked:
 - (a) Whether it supports the staff recommendation that the guidance on accounting for collective services be developed as amendments to IPSAS 19; and
 - (b) Whether, following the IPSASB's discussions on the recognition point for social benefits in earlier Agenda Papers, this treatment should be extended to cover universally accessible services.
15. The IPSASB is asked to provide comments on the draft amendments to IPSAS 19 included as [Appendix A](#) to this Agenda Item.

Agenda Item 11.2.1

Appendix A

Draft Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraph 18 is amended and paragraphs 107A, 111H and AG1–AG8 are added. New headings are added before paragraph AG1. New text is underlined.

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Definitions

18. The following terms are used in this Standard with the meanings specified:

Collective services are services provided simultaneously to all members of the community. The provision of a collective service to one individual does not reduce the amount available to others. [Staff note: this definition may need to be amended following the IPSASB's review of responses to the definitions in ED 63, *Social Benefits*.]

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Disclosure

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107A. For each material class of collective services, an entity shall disclose the expenses recognized in the reporting period. [Staff note: the IPSASB may decide this disclosure is not required.]

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Effective Date

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111H. Paragraph 18 was amended and paragraphs 107A and AG1–AG8 were added by [draft] IPSAS [X] (ED XX), *Collective Services: Amendments to IPSAS 19*, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY it shall disclose that fact.

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Application Guidance

This Appendix is an integral part of IPSAS 19

Collective Services

AG1. Examples of collective services include street lighting and defense services.

AG2. In providing collective services, a public sector entity incurs expenses and acquires assets through exchange transactions. Examples include the electricity used in providing street lighting.

the salaries paid to acquire the service of defense staff, and the acquisition of non-current assets used in delivering those services.

AG3. The public sector entity uses these assets to deliver the collective services in a non-exchange transaction. The public sector entity may have a number of future obligations relating to the provision of these collective services. Such obligations are an aspect of the ongoing activities of the public sector entity. However, only present obligations give rise to liabilities. The expected future sacrifice of resources does not of itself give rise to a present obligation. This is because, although beneficiaries may have an expectation that collective services will be provided, the public sector entity (the resource provider) can vary the level of such services so that the availability of those services may be limited. Consequently, no liability for the non-exchange transaction arises prior to the services being delivered, and the entity only accounts for the use of the assets in delivering the collective services.

AG4. As a result, the consumption of the asset recognized through the exchange transaction and the expense recognized through the non-exchange transaction for the provision of collective services occur simultaneously, as these examples demonstrate:

(a) Consumption of electricity in providing street lighting. In the exchange transaction, the entity acquires an asset (the electricity) and accepts a liability to pay the electricity provider. In the simultaneous non-exchange transaction, the entity consumes the asset (the electricity) and recognizes an expense.

(b) Consumption of services provided by defense staff. In the exchange transaction, the entity acquires an asset (the services) and accepts a liability to pay the staff. In the simultaneous non-exchange transaction, the entity consumes the asset (the services) and recognizes an expense.

(c) Consumption of non-current assets. In the exchange transaction, the entity acquires a non-current asset (for example, street lights or aircraft) and accepts a liability to pay the provider. In the non-exchange transaction, the entity consumes the asset over time as it provides collective services; the entity recognizes an expense (depreciation or amortization) to reflect this consumption. The consumption of the asset reflects the provision of collective services, whether this is on a straight line basis (for example, street lights) or on another basis such as usage of the asset (for example, flight hours for aircraft).

AG5. Where there is a simultaneous acquisition and consumption of an asset, there is no requirement to record the acquisition and derecognition of the asset. Instead, the entity recognizes an expense and a liability (or derecognizes cash where payment is made at the same time).

AG6. In recognizing an expense, an entity applies other IPSAS standards. These include, but are not limited to:

(a) IPSAS 12, Inventories;

(b) IPSAS 13, Leases;

(c) IPSAS 17, Property, Plant, and Equipment;

(d) IPSAS 31, Intangible Assets;

(e) IPSAS 32, Service Concession Arrangements: Grantor; and

(f) IPSAS 39, Employee Benefits.

AG7. Where the provision of a collective service gives rise to a provision or contingent liability, an entity applies this Standard.

AG8. Where there is no specific IPSAS that addresses the transaction, an entity applies the relevant international or national accounting standard dealing with the transaction. Where there is no international or national accounting standard dealing with the transaction, the entity applies the general principles of accrual accounting included in the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.