

# Agenda Item 11: Non-Exchange Expenses

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## Session Overview

- Issues Papers
  - Item 11.1 Measurement
  - Item 11.2 Alternatives
- Consultation Paper Draft
  - Outline
  - Chapter 1
  - Appendix A and Appendix B

## Agenda Item 11.1 Non-Exchange Expenses, Measurement

## Potential Measurement Bases

- Historical cost
- Cost of fulfillment
- Market value
- Cost of release
- Assumption price
  - Not applicable to non-exchange transactions

## Grant Example

- Historical cost
  - No consideration received when the liability is incurred
- Cost of fulfillment
  - Depends on number of vaccinations completed
- Market value
  - Active, orderly market for grants to provide vaccinations
- Cost of release
  - Unlikely to be able to obtain immediate release from obligation

## Subsidy Example

- Historical cost
  - No consideration received
- Cost of fulfillment
  - Cost to fulfill is known
- Market value
  - Not likely to be a market for payment of subsidies
- Cost of release
  - Unlikely to be able to obtain immediate release from obligation

## Qualitative Characteristics

- Relevance
  - Market value and cost of release may not provide relevant information to predict future settlement
  - Market or ability to transfer may exist in isolated cases
  - Option to fulfill through payment to recipient should continue to exist
  - Cost of fulfillment may provide most relevant information to users

# Qualitative Characteristics

- Faithful representation
  - Cost of fulfillment
    - Complete and neutral
    - Estimation process uses inputs that often are best available information
  - Market value
    - Generally neutral when markets are open, active, and orderly
    - Markets for non-exchange transactions less likely to be open, active, and orderly



# Qualitative Characteristics

- Faithful representation
  - Cost of release
    - May be the same as cost of fulfillment
    - If immediate exit is an option, cost of release would provide faithful representation

## Qualitative Characteristics

- Understandability
  - All three methods are generally understandable to users
  - Market value and cost of release may not be consistent with users expectations of non-exchange transactions, decreasing understandability if those methods are used
  - Cost of fulfillment likely consistent with user expectations of settlement of transaction

# Qualitative Characteristics

- Timeliness
  - All three methods should provide information that is timely

# Qualitative Characteristics

- Comparability
  - Market value
    - Comparable when markets are open, active and orderly
  - Cost of release
    - Specific to terms of agreement
    - Likely to be rare and less comparable

# Qualitative Characteristics

- Comparability
  - Cost of fulfillment
    - Depends upon terms of agreement
    - May vary across time periods and entities
    - Use of cost to fulfill is a consistent approach

## Qualitative Characteristics

- Verifiability
  - Market value is verifiable when markets are open, active and orderly
  - Cost of release and cost of fulfillment can be verified

# Qualitative Characteristics Summary

	Relevance	Faithful Representation	Understandability	Timeliness	Comparability	Verifiability
Market Value	Less	Depends upon quality of market	Generally; less for non-exchange	Depends upon quality of market	Depends upon quality of market	Depends upon quality of market
Cost of Release	Less	Yes, if most cost-efficient	Generally; less for non-exchange	Yes	Less	Yes
Cost of Fulfillment	More	Yes	Yes	Yes	Yes	Yes

## Matter for Consideration

The IPSASB is **asked** if it agrees with the recommendation to use cost of fulfillment as the measurement basis for non-exchange transactions of resource providers.



## Agenda Item 11.2 Non-Exchange Expenses, Alternatives

# Recognition Alternatives

- IPSAS 19
  - Advantages
  - Disadvantages
- IPSAS 23
  - Flowchart evaluation with examples
  - Advantages
  - Disadvantages

## Recognition Alternative 1: IPSAS 19

- Discussed in detail at December meeting
- Advantages
  - Flexible
  - Considers future events
- Disadvantages
  - Lack of specificity
  - Difficulty applying judgment to identify present obligation and apply “more likely than not” threshold

## Matters for Consideration

1. The IPSASB is **asked** if it agrees with the advantages and disadvantages of Alternative 1.
2. The IPSASB is **asked** if it agrees that Alternative 1 should be presented in the Consultation Paper.

## Recognition Alternative 2: Expand IPSAS 23

- Modify decision steps in IPSAS 23 to apply to outflows
- Starting point is to determine if the outflow meets the definition of a liability
- Flowchart steps from IPSAS 23 could be modified for the evaluation
- Evaluate each step with two variations of an example

## Recognition Alternative 2: Example

- Central government agrees to provide grant to local government to provide vaccinations to residents of local government
- Central government will pay half of the cost of up to 500 vaccinations
- Variation 1: Central government pays maximum grant amount up-front
- Variation 2: Central government pays grant amount after all vaccinations are complete

## Recognition Alternative 2: Example Variation 1

- Central government pays grant amount at beginning of arrangement, prior to any vaccinations being completed
- Step 1: Does the outflow give rise to an item that meets the definition of a liability?
  - Binding obligation on central government
  - Little or no realistic alternative to avoid
  - Outflow has already occurred

## Recognition Alternative 2: Example Variation 1

- Step 2: Does the outflow satisfy the criteria for recognition as a liability?
  - Meets the definition of a liability (Step 1)
  - Can be measured
- Step 3: Does the outflow result from a distribution to owners?
- Step 4: Is the transaction a non-exchange transaction?



## Recognition Alternative 2: Example Variation 1

- Step 5: Has the recipient satisfied all of the present obligations related to the outflow?
  - No vaccinations have been provided
  - No conditions specified
- If yes, recognize liability and expense
  - Instead of liability, reduction in asset due to payment

## Recognition Alternative 2: Example Variation 1

- Step 5: Has the recipient satisfied all of the present obligations related to the outflow?
  - No vaccinations have been provided
  - No conditions specified
- If no, recognize an asset to the extent the present obligations have not been satisfied
  - Recognize expense to extent an asset is not recognized

## Recognition Alternative 2: Example Variation 1

- Potential concerns
  - Symmetry: recipient may conclude that the inflow is revenue, but does the outflow represent a current expense to the central government?
  - If not an expense, does the item truly meet the definition of an asset?
  - When can the central government avoid the obligation?

## Recognition Alternative 2: Example Variation 2

- Central government pays grant amount after all vaccinations are complete
- Local government has provided half of the vaccinations at the end of the year, which is reported to the central government
- Analyze the steps as of the year-end date

## Recognition Alternative 2: Example Variation 2

- Step 1: Does the outflow give rise to an item that meets the definition of a liability?
  - Consider future outflow, as no outflow has occurred as of year-end
  - Central government is bound by terms of arrangement to pay for the vaccinations
  - Little or no realistic alternative to avoid
  - Results from past event

## Recognition Alternative 2: Example Variation 2

- Step 2: Does the outflow satisfy the criteria for recognition as a liability?
  - Meets the definition of a liability (Step 1)
  - Can be measured
- Step 3: Does the outflow result from a distribution to owners?
- Step 4: Is the transaction a non-exchange transaction?

## Recognition Alternative 2: Example Variation 2

- Step 5: Has the recipient satisfied all of the present obligations related to the outflow?
  - Half of the vaccinations have been provided
  - No conditions specified
  - No outflow has yet occurred
- If yes, recognize liability and expense
- If not, recognize an asset to the extent the present obligations have been satisfied

## Recognition Alternative 2: Example Variation 1

- Potential concerns
  - What are the implications of the remaining vaccinations?
  - Do the steps in this chart work for outflows, or do additional adjustments need to be made?



## Recognition Alternative: Expand IPSAS 23

- Advantages
  - Familiarity with IPSAS 23 for resources received may increase familiarity when applied to outflows
  - Includes guidance on transactions that include both exchange and non-exchange components

## Recognition Alternative: Expand IPSAS 23

- Disadvantages
  - Classification difficulty remains
  - Continues issues noted with application of IPSAS 23
  - Treatment of stipulations may be problematic
  - Identification of correct starting point to identify transactions
  - Unintended consequences

## Matters for Consideration

1. The IPSASB is **asked** if it agrees with the expansion of IPSAS 23 to expenses as described.
2. The IPSASB is **asked** if it agrees with the advantages and disadvantages of Alternative 2.
3. The IPSASB is **asked** if it agrees that Alternative 2 should be presented in the Consultation Paper.

## Agenda Item 11.3 Revenue and Non-Exchange Expenses, Consultation Paper Draft Outline

## Summary of Chapters

- Chapter 1: Introduction
- Chapter 2: Performance Obligation Approach
- Chapter 3: Exchange/Non-Exchange Classification Approach
- Chapter 4: IPSAS 23 Alternatives
- Chapter 5: Measurement
- Appendix A: Overview of Existing IPSASs
- Appendix B: Interviews
- Appendix C: Decision Trees

## Preliminary Questions

- Order of the Chapters
- Presentation of alternatives for revenues and expenses
- IPSAS 23 alternatives

## Agenda Item 11.4 Revenue and Non-Exchange Expenses, Consultation Paper Draft Sections

# Chapter 1

- History and scope of projects
  - Issues raised in practice and application of IPSAS 23
  - Lack of guidance for non-exchange expenses
  - How did we get to a combined document?
- Conceptual Framework
  - Highlight importance



# Chapter 1

- New private sector recognition model
  - Key driver of projects
- Interaction with social benefits
- Approach of CP

## Appendices A and B

- Appendix A
  - Background and overview of current standards
  - Information helpful to understand current landscape and potential changes
  - Not necessary for understanding of material in chapters
- Appendix B
  - Level of detail may be helpful, but not necessary for the chapters