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Submitted to: www.ifac.org

Dear John

Exposure Draft 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19)

Thank you for the opportunity to comment on Exposure Draft 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) (the ED). The ED has been exposed in New Zealand and some New Zealand constituents may comment directly to you.

The New Zealand Accounting Standards Board (NZASB) is pleased the IPSASB is making progress on its project on non-exchange expenses. This is an important topic for the New Zealand public and not-for-profit sectors which both apply IPSAS-based standards.

We understand this stream of the broader non-exchange expenses project addresses transactions for collective and individual services and emergency relief. We understand that grants, contributions and other transfers will be addressed in a subsequent exposure draft. While we acknowledge the IPSASB's decision to address these transactions in separate streams, in our opinion where non-exchange expense transactions have similar characteristics, a consistent approach to liability and expense recognition is required.

Our key points are summarised below and are elaborated upon in Appendices 1 and 2.

We agree with the proposed outcome in the ED for collective and individual services and those types of emergency relief services that are an ongoing activity of the government, i.e. no provision is recognised before the services are/relief is delivered.

For those types of emergency relief services that are not an ongoing activity of the government (or other public sector entity) we agree that in some circumstances it may be appropriate to recognise a provision or disclose a contingent liability.

Whilst we agree with the proposed outcomes in the ED for collective and individual services and emergency relief, we are of the view that the rationale in the ED is inadequate. In our opinion there is insufficient analysis of the principles of IPSAS 19 *Provisions, Contingent Liabilities and Contingent* to these transactions to justify the proposed outcomes in the ED.

We explain our concerns with the ED's rationale in Appendix 1.

We also consider it important for the IPSASB to consider the linkage between the ED and the current project on grants, contributions and other transfers. Where emergency relief has similar characteristics to grants, we would expect a consistent and coherent approach to the accounting of such transactions.

In our view, the IPSASB should:

1. establish requirements on collective and individual services and emergency relief in the body of IPSAS 19 (we would suggest under a separate section in *Application of the Recognition and Measurement Rules*);
2. provide guidance on how to apply the principles in IPSAS 19 to these transactions (i.e. how do the general recognition criteria in IPSAS 19 apply to collective and individual services and emergency relief);
3. provide more guidance on the distinction between the two types of emergency relief, including considering adding examples in the implementation guidance which accompanies IPSAS 19; and
4. provide more guidance on the distinction between (a) other forms of government assistance that are not part of the ongoing activities of the government and are not emergency relief provided in response to specific events and (b) individual and collective services.

Our responses to the Specific Matters for Comment in the ED are set out in Appendix 2 to this letter. If you have any questions or require clarification of any matters in this submission, please contact Aimy Luu Huynh (aimy.luuhuynh@xrb.govt.nz) or me.

Yours sincerely



Kimberley Crook
Chair – New Zealand Accounting Standards Board

APPENDIX 1 General Comments and the NZASB's Proposals

Scope

We note that when the IPSASB issued IPSAS 42 *Social Benefits* in January 2019, consequential amendments were made to the scope paragraph of IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. These consequential amendments mean that non-exchange expenses that do not meet the narrow definition of social benefits in IPSAS 42 now fall within the scope of IPSAS 19.

In particular, we understand that this includes non-exchange expenses arising from transactions in which governments and public sector entities deliver a wide range of goods, services and other benefits that are not social benefits (as defined in IPSAS 42). Governments and public sector entities would now need to apply the general recognition criteria in IPSAS 19 to determine whether to recognise a provision for these goods, services and other benefits.

We would like the IPSASB to consider whether any additional text should be added to the scope exclusion in paragraph 1(a) of IPSAS 19¹ to clarify that although social benefits within the scope of IPSAS 42 are out of scope of IPSAS 19, a wide range of goods, services and other benefits provided by governments and public sector entities are in scope. Given that the term “social benefits” is commonly used to refer to a wide range of government assistance programmes, not just those within the scope of IPSAS 42, we consider that clarifying text will assist entities in determining which types of transactions fall within the scope of IPSAS 19 rather than IPSAS 42. This could be achieved by referring to collective and individual services and emergency relief in the scope of IPSAS 19.

Location of requirements

We do not agree with the addition of application guidance to IPSAS 19 as proposed in Exposure Draft 67 *Collective and Individual Services and Emergency Relief* (Amendments to IPSAS 19) (the ED). As noted in our cover letter, we consider that the accounting requirements for collective and individual services and emergency relief would be better located in the body of IPSAS 19 under a separate section in *Application of the Recognition and Measurement Rules*. We would envisage that this section is set out like the existing section in IPSAS 19 on restructuring.² As explained further below, we consider that it is not sufficient to rely on an interpretation of one particular sentence in paragraph 26 of IPSAS 19 to support the conclusion reached in the ED on how to account for collective and individual services. In addition, as demonstrated by the differences in accounting treatment of the two types of emergency relief, it is important to provide clear guidance on when it is appropriate to conclude that no provision should be recognised until services are delivered. In our view, locating the requirements on collective services, individual services and emergency relief in the body of the standard, together with clearer links to the principles of IPSAS 19 (as we discuss below), will assist public sector entities to apply the Standard to these types of transactions.

¹ As amended by IPSAS 42.

² Paragraphs 81–96 of IPSAS 19.

Applying the principles in IPSAS 19

We consider that the rationale provided in the ED, which appears to be based solely on one specific part of IPSAS 19 (being one specific sentence in paragraph 26), is insufficient justification for the conclusions reached. In our view, the IPSASB should have provided:

- an analysis of the links between its conclusions in IPSAS 42 and its conclusions in the ED; and
- clearer links between its conclusions in the ED and the principles in IPSAS 19.

We explain these points below.

We are of the view that there are no significant conceptual differences between social benefits and collective and individual services. However, in our comment letter on Exposure Draft 63 *Social Benefits* (ED 63), we acknowledge that determining the relevant past event for all forms of social benefits (whether provided in the form of cash or services) is difficult and has been the subject of much debate over the years. Nevertheless, having reached a conclusion in IPSAS 42, we would have expected to see in the basis for conclusions (BC) the IPSASB's considerations on how that conclusion might apply to individual and collective services and emergency relief. For example, if a beneficiary of a particular health service (such as a hip replacement operation) has met all of the eligibility criteria to receive that service before balance date, with the services scheduled to be provided after balance date, should a liability to the beneficiary be recognised at balance date?

In addition, as noted earlier, we consider that there should be clearer links between the conclusions reached in the ED and the principles in IPSAS 19. We consider that these links are important, both for supporting the conclusions reached and for preparers when applying the requirements and guidance added to IPSAS 19.

Paragraph 22 of IPSAS 19 establishes the conditions that must be satisfied for a provision to be recognised. Amongst other things, the entity must have a present obligation as a result of a past event. Paragraphs 23–30 then provide guidance on when such a present obligation arises. The second sentence in paragraph 26, which the IPSASB has used as the basis for the new requirements and guidance on collective and individual services, is merely one sentence in existing requirements and guidance. In our view, it is not appropriate to rely upon one sentence taken in isolation. Although it may not have been the IPSASB's intention, the information provided in the BC gives the appearance that the IPSASB has selected that sentence in order to “retrofit” into IPSAS 19 a conclusion the IPSASB had already reached on the treatment of collective and individual services in developing an earlier Consultation Paper on social benefits. The result is the ED does not contain sufficient analysis of how the principles of IPSAS 19 apply to collective and individual services.

We therefore considered the application of IPSAS 19 to collective and individual services. As noted above, under IPSAS 19, the recognition principle requires, amongst other things, that an entity has a present obligation (legal or constructive) as a result of a past event. In the case of many types of government assistance programmes, a key issue is determining when an obligating event has occurred. As noted earlier, in our comment letter on ED 63, we acknowledge that determining the relevant past event for various forms of social benefits (whether provided in the form of cash or services) is difficult and has been the subject of much debate over the years. It is possible to argue that an obligation to provide services to beneficiaries (especially in the case of individual services)

arises in advance of those services being delivered. However, applying this argument would result in an entity having to recognise large liabilities for services to be delivered in the future without the recognition of future taxes to pay for those services. We consider that such an outcome is unlikely to meet the objectives of financial reporting and satisfy the qualitative characteristics.

Therefore, we support the outcome in the ED for collective and individual services and those types of emergency relief services that are an ongoing activity of the government, i.e. no provision is recognised before the services are/relief is delivered. However, given that IPSAS 19 will now cover these types of services, in addition to a range of other types of transactions, it becomes important to determine:

1. When is it appropriate to set aside arguments about when an obligating event has occurred and conclude that no provision is recognised until a service is delivered?
2. When is it appropriate to apply the usual accounting principles in IPSAS 19 to recognising provisions and other liabilities, which does entail considering when the obligating event has occurred and hence could result in the recognition of a provision for services to be delivered in the future?

In thinking about this question, we consider it helpful to also consider the way in which IPSAS 19 deals with executory contracts. Although the definition of, and guidance on, executory contracts is focused on exchange transactions, we consider this guidance provides a helpful analogy when thinking about the accounting treatment of collective and individual services that are part of the ongoing activities of government. We made a similar point in our comment letter on the Consultation Paper *Recognition and Measurement of Social Benefits* and have expanded on this point below.

We note that under IPSAS 19, no provision is recognised for executory contracts (unless the contract is onerous). This is because, before either party has performed:

- the rights and obligations under an executory contract are interdependent, e.g. an entity's obligation to pay for goods from a supplier is dependent upon (i.e. conditional upon) the supplier delivering those goods; and
- there is no obligation for a net outflow of resources (unless the contract is onerous).

Whilst not a perfect analogy (as the IPSASB found when it previously considered a similar idea, the social contract approach, during its work on developing IPSAS 42), we think that analogising to executory contracts helps to provide a rationale that no provision should be recognised for collective and individual services prior to the delivery of the services. Collective and individual services have characteristics similar to executory contracts in that the community will, collectively, provide funds to the government in the future under tax legislation, and the government will, in return, provide goods and services to the community in the future – essentially, there are rights (to future taxes) and obligations (to provide goods and services to beneficiaries) already established under legislation, and there is an interdependency between those rights and obligations. In these circumstances, even if it is argued that the rights and obligations are separable (e.g. as they involve different individual parties), unlike a typical executory contract for an exchange transaction (which is one reason why the executory contract analogy is not perfect), the overall collective interdependency between these rights and obligations is the key reason why it does not provide useful information to recognise large

liabilities for obligations to beneficiaries under these types of government programmes that are funded by future taxes.

In addition to the above points, in the case of collective and individual services that are part of the on-going activities of government, even though citizens may have legislative entitlements to receive services in the future (e.g. an entitlement to free primary and secondary education), there is often a significant amount of discretion for the public sector entity to make adjustments to the amounts, timing and method of delivery of future services. Some argue that the ability to make such adjustments means that there is no present obligation to service recipients before those services are delivered. (This is similar to some of the situations discussed in paragraph 27 of IPSAS 19 in which a provision is not recognised for future expenditure that is dependent upon an entity's future actions.) Others consider that the ability to make adjustments to future service delivery impacts on the measurement, rather than the existence, of a present obligation to service recipients. Under the latter view, even in situations where it is argued that a present obligation to service recipients arises before services are delivered, the adjustability creates significant measurement difficulties and hence the ability to make a reliable estimate.

In our view, the above analysis could be used to develop a clearer link between the conclusion reached in the ED and the provisions of IPSAS 19, which should also help entities to apply the amended IPSAS 19. Without that clearer link, there may be difficulties in practice in determining whether or not (and the extent to which) a particular government assistance programme involves the delivery of a service to which the requirements and guidance on individual and collective services applies.

In addition, we also note that the ED proposes separate definitions of, and requirements and guidance on, "individual services" and "collective services", although the outcome appears to be the same. It is unclear whether this distinction has any practical impact. In paragraph BC11 of the ED, the IPSASB noted that the reasons a provision did not arise for collective and universally accessible services (now referred to as individual services) were not identical. The IPSASB agreed that the guidance should reflect this. We suggest that the IPSASB provides further discussion of the differences between collective services and individual services. This would assist the readers to appreciate the IPSASB's rationale for distinguishing between collective services and individual services as proposed in the ED, including whether that distinction matters in practice.

Emergency relief

The executory contract analogy discussed above would result in a similar conclusion when applied to emergency relief that is part of the ongoing activities of government.

However, the executory contract analogy does not apply to emergency relief provided only in response to specific emergencies because the relief is:

- ad hoc, so is additional to, and distinct from, the ongoing activities of the government; and
- provided only if the government chooses to provide such assistance. So unlike existing government programmes, it is reasonable to conclude that providing the relief is discretionary, i.e. no obligation arises, until the requirements in paragraphs 22–34 of IPSAS 19 for provision recognition are satisfied.

In general, we consider this type of emergency relief has similar characteristics to grants.

Although, in general, we agree with the proposed accounting treatment of emergency relief, we disagree with paragraph AG18 of the ED, which states “Goods and services delivered through emergency relief do not address the needs of society as a whole. This distinguishes emergency relief from collective services and individual services”. We disagree with this statement and are of the opinion that providing aid and funding after a natural disaster helps the individuals and households to resume with their daily activities (amongst other things), which is addressing the needs of society as a whole. The fact that the recipients of emergency relief are specific individuals or households cannot be determinative of whether or not the provision of government assistance addresses the needs of society as a whole – otherwise, it would call into question the conclusions reached by the IPSASB on individual services and cash transfers to individuals and/or households (social benefits), as these are intended to address the needs of society as a whole.

We initially questioned why the ED proposes to add specific requirements and guidance on emergency relief. We understand that part of the IPSASB’s rationale for doing so is because the IPSASB has identified that emergency relief can include activities that are part of the ongoing activities of government, which need to be distinguished from emergency relief provided in response to specific emergencies. This distinction determines whether an entity applies either (a) the requirements and guidance on collective and individual services (for which no provision is recognised before services are delivered) or (b) the requirements and guidance in paragraphs 22–34 of IPSAS 19 (for which a provision might be recognised before services are delivered, if specified criteria are met). The need to make such a distinction reinforces our earlier comments about providing clearer links between the proposals in the ED and the existing principles, requirements and guidance in IPSAS 19. There are likely to be other situations, in addition to emergency relief, in which such a distinction needs to be drawn. For example, there may be individual services that are not ongoing activities of the government and not emergency relief, such as a government of a developed country providing foreign aid in the form of medical services to a developing country.

To assist entities with applying the requirements and guidance, we suggest the IPSASB:

- (a) provides more guidance on the distinction between the two types of emergency relief;
- (b) considers adding examples in the implementation guidance which accompanies IPSAS 19 on the two types of emergency relief; and
- (c) provides more guidance on the distinction between (a) other forms of government assistance that are not part of the ongoing activities of the government and are not emergency relief provided in response to specific events and (b) individual and collective services.

In providing guidance on when it is appropriate to recognise a provision for emergency relief in response to specific emergencies or in other similar situations where goods and services are provided (for example, an ad hoc response to a particular event i.e. not as an ongoing activity of the government), we consider the application guidance of the principles in IPSAS 19 developed by the

Treasury³ to be useful. The Treasury Guidance provides application guidance of the following key criteria to consider if there is a provision.

- There is a non-reimbursable economic sacrifice
- The expense is not ongoing and adjustable
- The possible obligation arises due to government policy
- At the point the offer is approved and announced it is clear:
 - (i) who will provide the assistance;
 - (ii) what events qualify for assistance;
 - (iii) the types and approximate number of entities who will receive assistance;
 - (iv) what the expected cost was; and
 - (v) when the assistance would be provided; and
- The government has raised a valid expectation in those affected that it will provide cash or the delivery of goods or services because:
 - (i) individuals and entities exist who satisfy the eligibility criteria;
 - (ii) the commitment is not expressed as being subject to future budget decisions, and
 - (iii) the substantial events satisfying the criteria covered by the policy have occurred.⁴

The Treasury Guidance may be of interest to the IPSASB in developing the requirements and guidance as we have suggested in points (a) and (c) above.

³ The Treasury *Guidance on Recognising Liabilities and Expenses* (the Treasury Guidance) <https://treasury.govt.nz/sites/default/files/2013-11/rle-nov13.pdf>

⁴ The Treasury Guidance, page 20.

APPENDIX 2 Response to Specific Matters for Comment

Specific Matter for Comment 1

Do you agree with the definitions of collective services and individual services that are included in this Exposure Draft?

If not, what changes would you make to the definitions?

We have noted in Appendix 1 that the ED proposes separate definitions of, and requirements and guidance on, “individual services” and “collective services”, although the outcome appears to be the same. It is unclear whether this distinction has any practical impact.

We disagree with the proposed definitions of collective services and individual services. Both definitions contain references to “address the needs of society as a whole” and this notion is one of the reasons the ED has distinguished between collective and individual services and emergency relief. There is no definition of, or guidance on, what is meant by “address the needs of society as a whole” in the context of collective and individual services. We note there is some discussion of this notion in paragraph AG8 of IPSAS 42 but that discussion is unclear and is only in the context of social benefits.

Without this definition and/or guidance it is difficult to distinguish between (a) an individual service within the scope of paragraphs AG12 and AG13 of the ED (for which no provision is recognised before the service is delivered) and (b) the delivery of services to individuals in other circumstances, such as emergency relief (which could fall into paragraph AG20, AG21 or AG22 of the ED, depending on the circumstances). In the case of emergency relief, the ED relies on the assertion in the first sentence of paragraph AG18, but we disagree with this assertion. So given that we have different views to the IPSASB on the circumstances in which services address the needs of society as a whole, and the ED contains no explanation of the meaning of this notion, this suggests that the two definitions are not clear.

Specific Matter for Comment 2

Do you agree that no provision should be recognised for collective services?

If not, under what circumstances do you think a provision would arise?

Specific Matter for Comment 3

Do you agree that no provision should be recognised for individual services?

If not, under what circumstances do you think a provision would arise?

We agree with the conclusion that no provision should be recognised for collective services and individual services that are part of the ongoing activities of government.

For those types of emergency relief services that are individual services and not an ongoing activity of the government (or other public sector entity), we agree that in some circumstances it may be appropriate to recognise a provision or disclose a contingent liability.

We have noted in our discussion in Appendix 1 that we disagree with adding application guidance to IPSAS 19. Instead, in our view, the IPSASB should establish requirements and guidance on collective and individual services and emergency relief in the body of IPSAS 19 (we would suggest under a separate section in *Application of the Recognition and Measurement Rules*). In our view the IPSASB should explain how it has applied the principles in IPSAS 19 to collective and individual services and emergency relief (i.e. how do the general recognition criteria in IPSAS 19 apply to collective and individual services and emergency relief). In Appendix 1 we have outlined some thoughts on how this might be done and some matters to consider.

Specific Matter for Comment 4

Do you agree with the proposed accounting for emergency relief?

If not, how do you think emergency relief should be accounted for?

We agree with not recognising a provision for those types of emergency relief services that are part of the ongoing activities of government.

For those types of emergency relief services that are not an ongoing activity of the government (or other public sector entity), we agree that in some circumstances it may be appropriate to recognise a provision or disclose a contingent liability.

We have noted in our discussion in Appendix 1 that we disagree with adding application guidance to IPSAS 19. Instead, in our view, the IPSASB should establish requirements and guidance on collective and individual services and emergency relief in the body of IPSAS 19 (we would suggest under a separate section in *Application of the Recognition and Measurement Rules*). In our view, the IPSASB should explain how it has applied the principles in IPSAS 19 to collective and individual services and emergency relief (i.e. how do the general recognition criteria in IPSAS 19 apply to collective and individual services and emergency relief). In Appendix 1 we have outlined some thoughts on how this might be done and some matters to consider.

Other comments

We note that paragraph AG16 of the ED seems to suggest that if expenses are classified based on their function then collective and individual services could be presented separately. For some entities there is no separation between the provision of collective and individual services, so it would require system changes to collate this information. We are of the view that this separate presentation of information provides no benefit to the users of the financial statements. This separate presentation could have the same challenges as the current disclosure of exchange and non-exchange revenue under IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Whilst the terms collective services and individual services are used in the ED, this should not result in separate presentation in the financial statements. We recommend that the IPSASB reconsiders the separate presentation of collective and individual services and reviews the guidance in paragraph AG16 of the ED.

Editorials

On page 15 of the ED we have found an editorial in paragraph 35A of IPSAS 42 *Social Benefits*; the paragraph reference to 5A should be paragraph 4A.