

Meeting: International Public Sector Accounting Standards Board
Meeting Location: New York, USA
Meeting Date: March 6–9, 2018
From: Paul Mason

Agenda Item 12

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
Project management	Instructions up to December 2017 Meeting	12.1.1
	Decisions up to December 2017 Meeting	12.1.2
	Non-Exchange Expenses Road Map	12.1.3
	Review of Responses - Checklist	12.1.4
Decisions required at this meeting	Collective and Universally Accessible Services	12.2.1
	Public Sector Performance Obligation Approach	12.2.2
	Non-Contractual Receivables – Initial Measurement	12.2.3
	Non-Contractual Receivables – Subsequent Measurement	12.2.4
	Non-Contractual Payables – Subsequent Measurement	12.2.5
Other supporting items	Comment Letters	IPSASB website

INSTRUCTIONS UP TO DECEMBER 2017 MEETING

Meeting	Instruction	Actioned
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> .	Reflected in the structure of these Agenda Items
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.	See Appendix A to Agenda Item 10.2
June 2017	All instructions up to the June 2017 meeting were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .	

DECISIONS UP TO DECEMBER 2017 MEETING

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

NON-EXCHANGE EXPENSES ROAD MAP

Meeting	Objective: IPSASB to consider:	
	Collective and Individual Services	Grants and Other Transfers
March 2018	1. Review of responses	1. Review of responses
June 2018	1. Consideration of responses to Social Benefits ED 2. Discussion of issues	1. Consideration of responses to Social Benefits ED 2. Discussion of issues
September 2018	1. Discussion of issues	1. Discussion of issues
December 2018	1. Discussion of issues 2. Review first draft of propose ED	1. Discussion of issues
March 2019	1. Review of draft ED 2. Approval of ED	1. Discussion of issues 2. Review first draft of proposed ED
June 2019	Consultation Period	1. Review of draft ED
September 2019		1. Review of draft ED 2. Approval of ED
December 2019	1. Review of responses	Consultation Period
March 2020	1. Initial discussion on issues raised 2. Review first draft of proposed IPSAS	
June 2020	1. Review of draft IPSAS 2. Approval of IPSAS	1. Review of Responses
September 2020		1. Initial discussion of issues raised
December 2020		1. Further discussion of issues raised
March 2021		1. Review first draft of proposed IPSAS
June 2021		1. Review of draft IPSAS 2. Approval of IPSAS

REVIEW OF RESPONSES - CHECKLIST

Staff have undertaken the review of responses using the NVivo software, as discussed with the IPSASB at their December 2017 meeting. This checklist provides details of the procedures followed by staff in undertaking the review of responses.

Procedure	Completed
1. Staff import all responses received into the NVivo software.	Yes.
2. Staff import the master respondent profile list to ensure the analysis of respondents by region, function, and language is consistent between projects.	First review of responses using new procedures – no previous master list.
3. Staff link the imported responses to the relevant respondent profile, adding new profiles where a respondent has not provided a response since staff began using the NVivo software.	Yes – new profiles created for all respondents. Analysis of respondents by region, function, and language is included in Agenda Item 10.2.
4. Staff create a coding structure that reflects the Preliminary Views (PVs) and Specific Matters for Comment (SMCs) that the IPSASB raised in the Consultation Paper, and that allows staff to record the variety of answers to those PVs and SMCs.	Yes.
5. Staff read and consider all responses.	Yes. Responses are available here .
6. Staff code related portions of the responses to the relevant answer to each PV and SMC	Yes
7. Staff create additional coding for additional matters identified by respondents, and for common themes which apply across multiple SMCs and PVs, and code related portions of the responses to these additional matters and themes.	Yes
8. Staff review the analysis within the software to ensure: <ul style="list-style-type: none"> (a) A response to each PV and SMC has been recorded for each respondent (in some cases the response will be “No comment”); (b) All sections of a response has been coded appropriately, with the exception of opening remarks, background on organization, repetition of PVs and SMCs, summary sections that merely repeat details included elsewhere, etc. 	Yes

Staff has developed a number of standard reports that provide details of how responses have been coded. These are not included in the Agenda Papers, but are available on request by Members.

Collective and Universally Accessible Services

Questions

- The IPSASB is asked to note the issues raised by respondents about accounting for collective and universally accessible services, and to provide direction to staff about how to address these at the June 2018 meeting.

Detail

- The Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, included two preliminary views (PVs) relating to collective and universally accessible services:

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view 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.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

- A clear majority of respondents supported both preliminary views:

Response / Number of Respondents	PV 5	PV 6
Agree	24	24
Partially Agree	2	4
Disagree	4	2
No Clear Preference Expressed	1	1
No Comment	7	7
Total	38	38

- There were 22 respondents who agreed with both PV 5 and PV 6.
- Respondents, including those who agreed with the PVs, raised a number of issues that the IPSASB will need to consider when providing direction to staff on non-exchange expenses in relation to collective and universally accessible services. These are discussed below.

Scope of Collective Services and Universally Accessible Services, and Links to Social Benefits Project

6. A number of respondents commented on the definitions of collective services and universally accessible services, and the need to ensure consistency with the social benefits project.
7. Respondent 10 considers that there are no significant conceptual differences between the types of transactions that would fall within the scope of ED 63 and universally accessible services and collective services. They consider that the accounting for these expenses would require consideration of similar issues and should be consistent. The respondent notes that beneficiaries of both social benefits (such as pensions) and universally accessible services (such as free education) may have existing rights established under legislation. Consequently, they consider that the same issues will arise in determining when an entity has a present obligation to provide those benefits or services. Respondent 33 recommends that the non-exchange expense project is undertaken concurrently with the social benefits project to ensure consistent liability recognition criteria.
8. Respondent 32 comments that the definitions of definition of universally accessible services and collective services need to be further specified. Staff note that universally accessible services are defined in ED 63, *Social Benefits*. Collective services are not currently defined in the IPSASB's literature. Staff note the comment, and recommends that the IPSASB consider the definitions once the responses to ED 63 have been reviewed.
9. Respondent 33 seeks clarification as to the treatment of payments by grantors under social benefit bonds (also called social impact bonds) that relate to the future reduction for the need for universally accessible services (e.g. initiatives to reduce diabetes and the need for hospitalization and medical costs) Staff consider that the treatment of the various components of these complex transactions would need to be assessed against the definitions on a case by case basis.
10. Respondent 38 comments that it is it is critical that the accounting treatment for universally accessible services and collective services are consistent with the concepts proposed in ED 63. The respondent highlights healthcare, which may be provided as a universally accessible service or as a social benefit, as an area where consistent accounting would be important.

Does a Present Obligation Exist?

11. Respondents generally concur with the IPSASB's preliminary view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient (although there may be performance obligations imposed on the public sector entity). However, a number of respondents question whether this was sufficient to conclude that there is no obligating event related to non-exchange transactions for universally accessible services and collective services, and that resources applied for these types of non-exchange transactions should therefore be expensed as services are delivered.
12. Respondent 10 agrees that the focus should be on whether an obligation that gives rise to a liability exists. However, Respondent 10 disagrees with the IPSASB's view. The respondent comments that the IPSASB's conclusion that there is no obligation prior to the delivery of services is not based on a sound rationale, as the rationale provided appears to mix the issue of measurement of a liability with the existence of a liability. The fact that a government might be able to vary the level of services provided could impact on the extent of its obligation to beneficiaries, but it does not follow

that no obligation exists. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability.

13. As noted above (see paragraph 7), Respondent 10 considers that there are no significant conceptual differences between universally accessible services and collective services and the types of transactions that would fall within the scope ED 63. They consider that similar issues arise in determining whether a present obligation arises, and, if so, when.
14. Respondent 20 comments that the focus needs to be on determining whether or not there is a non-legally binding obligation that would give rise to a liability. In the absence of both a legally binding and non-legally binding obligation the entity will recognize an expense only. Respondent 20 concurs with the IPSASB's argument that, whilst there may be an expectation that universally accessible services and collective services will be delivered in future, factors such as the ability of the entity to modify or change the service delivery means that these expectations will generally not give rise to obligating events and consequently the liability recognition criteria are not satisfied.
15. Staff consider that the issues raised by respondents are similar to those considered by the IPSASB in developing ED 63. Staff consider it would be appropriate for the IPSASB to determine when an obligating event arises for social benefits, collective services and universally accessible services at the same time. Consequently, staff recommend that the IPSASB does not reach a final conclusion as to whether a present obligation exists, and if so, at what point it arises, until it has considered similar issues in respect of social benefits.
16. Respondent 33 comments that that assumptions should not be made that recipients of grants, contributions and other transfers that provide universally accessible services have no performance obligations under their funding agreements. Respondent 33 suggests that arrangements that meet the criteria for the public sector performance obligation approach (PSPOA), should be accounted for under the PSPOA, even if they relate to universally accessible services.
17. Staff consider that the scenario described includes two transactions; the funding of the service provider by a grantor, and the delivery of universally accessible services by the service provider. Staff consider that the delivery of universally accessible services would be accounted for in accordance with the extended obligating event approach (if the IPSASB agrees to retain that approach). However, staff concur that the funding of the service provider by the grantor should be accounted for under the PSPOA.

Exchange or Non-Exchange Expenses?

18. Respondent 08 questions whether non-exchange expenses exist for collective and universally accessible services. The respondent considers that an entity will provide these services through exchange transactions (for example, the purchase of electricity to provide street lighting, and the payment of teachers' salaries to provide universal education). Consequently, Respondent 08 suggests that that the IPSASB should first consider if guidance is necessary for non-exchange expenses, and if so, to what extent. Guidance already exists in the conceptual framework and the guidance that exists for exchange expenses, mostly through IPSASs dealing with statement of financial position items, could be applied to non-exchange expenses by analogy. If guidance is required, it may not be necessary to develop an IPSAS, but could be included in existing IPSASs.
19. Respondent 38 believes that there are obligating events for non-exchange transactions related to universally accessible services and collective services. They consider that it would be more

appropriate to take a position that an obligating event occurs when such services are provided to beneficiaries; however, present obligations may arise and liabilities may need to be recognized earlier for underlying (exchange) transactions under other standards.

20. Staff concur that collective and universally accessible services will usually be provided through exchange transactions. The IPSASB is asked to consider whether a present obligation for a non-exchange liability can arise prior to the obligation for the exchange liability; and if not, whether there is any need to address the substantive accounting requirements for collective and universally accessible services in an IPSAS. Staff recommend that the IPSASB does not reach a firm conclusion on this issue until it has addressed the consistency with the social benefits project, and the question of whether an obligating event occurs, and if so, when.

Alternative Approach

21. Respondent 10 has proposed an alternative approach to classifying and accounting for non-exchange expenses. This is discussed in more detail in Agenda Item 12.2.2.

Decisions required

22. The IPSASB is asked to consider the following issues raised by respondents about accounting for collective and universally accessible services, and to provide initial directions to staff regarding:
 - (a) Scope of collective services and universally accessible services, and links to the social benefits project.
 - (b) Do the transactions give rise to a present obligation?
 - (c) Are the transactions exchange transactions or non-exchange transactions? Is guidance on non-exchange transactions required?
23. The IPSASB is asked to consider the alternative approach proposed by Respondent 10 as part of its discussion of Agenda Item 12.2.2.
24. The IPSASB is asked to confirm that it wishes to review these issues again at the June 2018 meeting, alongside the review of responses to ED 63.

Public Sector Performance Obligation Approach

Questions

1. The IPSASB is asked to note the issues raised by respondents about the use of the public sector performance obligation approach for some non-exchange expenses, and to provide direction to staff about how to address these at the June 2018 meeting.

Detail

2. The Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, included a preliminary view (PV) relating to the public sector performance obligation approach (PSPOA):

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

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 PV 7	Number of Respondents
Agree	16
Partially Agree	9
Disagree	8
No Clear Preference Expressed	0
No Comment	5
Total	38

4. Those who support the PV raised the following issues for the IPSASB to consider:
 - (a) Respondents 12 and 17 raise implementation issues. Respondent 12 notes grantors may have difficulties in determining the extent to which a grantee has satisfied a performance obligation unless this information is periodically reported. Respondent 17 comments that a platform needs to be provided for the exchange of information between resource providers and resource recipients about the results of obligations performed. Respondents 10, 33 and 36 (who partially agree with the PV) and Respondents 11, 13 and 15 (who disagree with the PV) raised similar concerns about the difficulties of obtaining information to determine the extent to which a grantee has satisfied a performance obligation.

- (b) Respondents 16, 24, 26, 28, 32 and 34 support aligning the accounting requirements for the revenue and expenses sides of the same transaction. Respondents 13, 29 and 38, who disagree with the PV, also consider that expense and revenue should be treated in the same way (but do not support the PSPOA for either revenue or expenses).

However, some respondents who disagree with the PV, or only partially support the PV, express caution about aligning the accounting requirements. Respondents 8, 10, 11, 14, 33, and 36 consider 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. These respondents note that a resource provider and resource recipient may not have the same evidence to support recognition and consider the element definitions should be the ultimate gatekeepers of whether an asset or liability is recognized. Respondents 15 and 19 also question whether, under the PSPOA, a resource provider still controls an asset (based on the recognition criteria for an asset in the statement of financial position) that has already been transferred to a resource recipient, based only on the fact that the resource recipient has not yet fulfilled performance obligations.

- (c) Respondent 32 encourages the IPSASB to reconsider the current conditions/restrictions-approach of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, as well as the accounting for transfers with timing restrictions. They note that a deferred outflow/other resources-approach might be an appropriate way forward.
- (d) Respondent 34 comments that the PSPOA will allow for better reflection of the performance of the public sector entity in terms of implementation of its working program and achievement of its objectives, which is very relevant information for the users of financial statements.
- (e) Respondent 34 also comments that in most cases a transaction which has stipulations should also be considered as having a performance obligation. Respondents 31 and 37, who partially support the PV, comment that that they would expect further work as to the articulation between conditions as in IPSAS 23 and performance obligations as in IFRS 15, *Revenue from Contracts with Customers*. They believe that the performance obligation approach would better reflect the Conceptual Framework's qualitative characteristics.

However, Respondent 10 does not agree that a PSPOA should be applied to all non-exchange expense transactions that contain either performance obligations or stipulations. They consider that a PSPOA is only appropriate for expense transactions with performance obligations – that is, transactions where the resource recipient has an enforceable and specific obligation to transfer goods or services to the resource provider or agreed beneficiaries. Without this, the resource provider does not have an asset. Respondent 10 makes alternative proposals are discussed below at paragraph 5(b).

Respondent 25 does not state whether they consider stipulations are performance obligations or not, but does encourage the IPSASB to consider time-requirements and capital grant accounting for grant providers. Respondent 25 comments that if the PSPOA is not broadened further, it can be expected to give rise to issues similar to time-requirement issues experienced under IPSAS 23. If the IPSASB decides not to broaden the PSPOA, then it

should consider broadening the time-requirement options to also cover arrangements with deliverables imposed by the funder that are enforceable but don't involve the transfer of a good or service.

Staff recommends that the IPSASB consider these comments in the light of its discussions of time requirements for revenue elsewhere on this Agenda (see Agenda Item 10.3.4) and in future meetings.

5. In addition to the comments above, respondents who partially supported the PV raised the following issues:

(a) Respondents 01, 03 and 04 (all entities involved in funding television or film production) raised a number of points that were relevant to their activities:

- (i) A valid expectation arises once the funding is approved. At that point, an expense cannot be avoided.
- (ii) The performance obligation used to recognize an expense should be based on the substance of the arrangement, not administrative activities.
- (iii) The financial statements should reflect the information that users find helpful, which these entities view as a comparison of funding approvals given compared to appropriations received.

Staff considers that the normal application of substance over form when considering the PSPOA will address these concerns.

(b) Respondent 10 proposes an alternative framework for expense recognition. A diagram summarizing the framework is provided at [Appendix A](#) to this Agenda Item. Key features of the framework are as follows:

- (i) The framework distinguishes between expense transactions with performance obligations and those without. The existing exchange / non-exchange distinction would be replaced. The IPSASB will discuss similar comments in respect of revenue elsewhere on this Agenda (see Agenda Item 10.3.1).
- (ii) A simplified version of the PSPOA would apply to all expense transactions with performance obligations not covered by other Standards. This would include exchange transactions, expanding the scope of the project. Performance obligations would be limited to the transfer of goods or services.
- (iii) The Extended Obligating Event Approach proposed in the CP (response to which are discussed above in [Agenda Item 12.2.1](#)) would be replaced by an Obligating Event Approach. This approach is based on the Conceptual Framework's definition of a liability, and further guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, for obligations of uncertain timing or amount at the reporting date. Respondent 10 considers that expense transactions such as social benefits, collective services and universally accessible services have similar characteristics, so a consistent approach for liability and expense recognition is required. Respondent 10 also proposes the use of Other Comprehensive Income (OCI) (or similar presentation) for some transactions accounted for under the proposed Obligating Event Approach. Staff notes that the IPSASB has previously rejected the use of OCI in its Standards.

Members may wish to refer [Respondent 10's comment letter](#) for further details of their proposed approach.

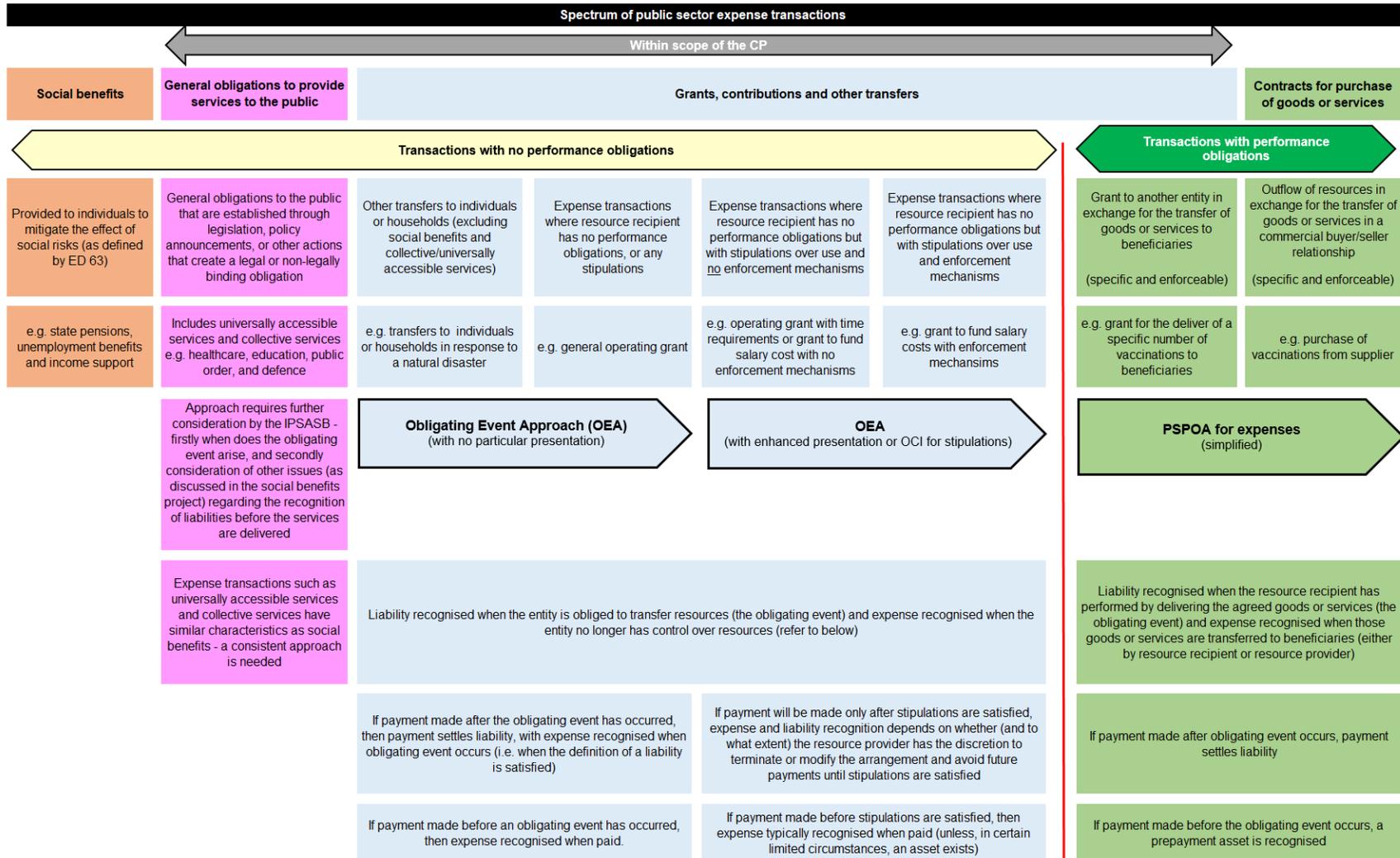
- (c) Respondents 31 and 37 comment that they would need further understanding of how the performance obligation would apply on the revenue side before we can reach an informed decision on the PSPOA. Similarly, Respondent 33 suggests that greater clarity is needed, but supports the PSPOA subject to the criteria of the Conceptual Framework being met.
6. In addition to the comments above, respondents who disagreed with the PV raised the following issues:
- (a) Respondent 08 considers that the IPSASB should first consider if guidance is necessary for non-exchange expenses, and if so, to what extent (see paragraph 18 of Agenda Item 12.2.1 for further details).
 - (b) Respondents 08, 29 and 38 state that they believe it would be more appropriate to apply the Extended Obligor Event Approach to the transactions included in Preliminary View 7, and not a PSPOA. (Elsewhere in their response, Respondent 38 comments that they believe that non-exchange transactions are unique to the public sector and should be treated consistently). Similarly, Respondents 14 and 19 both support the use of IPSAS 23 for all non-exchange revenue transactions, and disagree with the proposals in PV 7. Respondent 14 notes that, in discussing the PSPOA for revenue, they propose that Category A and Category B transactions should be treated as a single category. This should also apply to expense transactions. Staff notes that the IPSASB will discuss similar comments in respect of the categorization of transactions elsewhere on this Agenda (see Agenda Item 10.3.1).
 - (c) Respondent 11 comments that their preference is to keep the accounting treatment as simple as possible. Grants in particular are made with no expectation that any funds will be returned. Therefore, in their view these types of transactions should be expensed as the commitment to provide the resource is entered into.

Decisions Required

7. The IPSASB is asked to note the issues raised by respondents about the use of the public sector performance obligation approach for some non-exchange expenses, and to provide direction to staff about how to address these at the June 2018 meeting. In doing so, the IPSASB is asked to have regard to its earlier discussions about the public sector performance obligation approach for some non-exchange revenue transactions, and the directions given to staff at that time.

Appendix A to Agenda Item 12.2.2

Respondent 10 Proposed Framework for Expense Recognition



Non-Contractual Receivables – Initial Measurement

Questions

1. The IPSASB is asked to note the issues raised by respondents about the initial measurement of non-contractual receivables, and to provide direction to staff about how to address these at a future meeting.

Detail

2. The Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, included a preliminary view (PV) relating to the initial measurement of non-contractual receivables:

Preliminary View 8 (following paragraph 7.18)

The Board considers 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 uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

3. A clear majority of respondents support the PV:

Response to PV 8	Number of Respondents
Agree	21
Partially Agree	4
Disagree	5
No Clear Preference Expressed	0
No Comment	8
Total	38

4. Those who support the PV raised the following issues for the IPSASB to consider:
 - (a) Respondents 07 and 15 propose that entities disclose the reasons for any significant uncollectable amounts.
 - (b) Respondent 21 comments that where settlement of the amounts owed can be legitimately deferred, this will affect the fair value of the amount collectable. This reduction in the fair value would not be an impairment, and would need to be addressed in another way. In considering this issue the suggestion from Respondent 08, who partially agrees with the PV, that the IPSASB should consider if a practical expedient that non-contractual receivables that will be collected in less than 12 months need not be discounted may be helpful.
 - (c) Respondent 32 seeks guidance on how to determine face value, particularly in relation to the application of statistical models to determine tax revenue in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

5. Staff recommend that these issues are taken into account when developing the requirements for the initial measurement of non-contractual receivables.
6. Further issues were raised by those who only partially agree with the PV and those who disagree with the PV.
7. Respondents 10 and 11 comment that the initial measurement of non-contractual receivables should be dependent on a revenue recognition model. Both note that the discussion in the CP relates to statutory receivables, and may not be appropriate for other non-contractual receivables. In partially agreeing with the PV, Respondent 11 comments that the proposed approach would be appropriate for statutory receivables. Staff consider that this is a valid concern and should be taken into account in developing requirements.
8. Respondent 10 considers that non-contractual receivables should be measured in the same way as contractual receivables (and makes reference to IFRS 9). Respondent 36 proposes a similar approach (while referring to national standards). Staff consider that, for accountability reasons, measurement at the face value of a transaction with any amount expected to be uncollectible identified as an impairment is appropriate for statutory receivables. The IPSASB is asked to consider whether, in line with the comments discussed in paragraph 7, different measurement would be appropriate for other non-contractual receivables (for example, grants received).
9. Respondents 08, 19, 31, 35 and 37 consider that impairment should not be recognized at initial recognition, but taken into account in subsequent measurement only (Respondent 35 also commented that initial recognition at face value (without impairment) is a requirement of legislation). As some respondents acknowledge, not recognizing impairment at initial recognition would require the use of an incurred loss model of impairment. The IPSASB proposed a move from an incurred loss model to an expected loss model for financial instruments in ED 62, *Financial Instruments*. The IPSASB will need to consider whether the incurred loss model would be appropriate for non-contractual receivables. Staff consider that the expected loss model more faithfully represents the economics of non-contractual receivables (and in particular statutory receivables such as taxation revenue).

Decisions Required

10. The IPSASB is asked to consider the following issues raised by respondents about the initial measurement of non-contractual receivables, and to provide initial directions to staff regarding:
 - (a) The proposals discussed in paragraph 4 above.
 - (b) Whether the initial measurement of non-contractual receivables should be dependent on revenue recognition model (see paragraph 7 above); and if so, whether statutory receivables should be measured at the face value of a transaction with any amount expected to be uncollectible identified as an impairment is appropriate for statutory receivables (see paragraph 8 above).
 - (c) Assuming the IPSASB agrees that some non-contractual receivables should be measured at the face value less impairment, the impairment model to be used (see paragraph 9).

Non-Contractual Receivables – Subsequent Measurement

Questions

1. The IPSASB is asked to note the issues raised by respondents about the subsequent measurement of non-contractual receivables, and to provide direction to staff about how to address these at a future meeting.

Detail

2. The Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, included a preliminary view (PV) relating to the initial measurement of non-contractual receivables:

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

3. A majority of respondents who commented disagreed with the PV:

Response to PV 8	Number of Respondents
Agree	10
Partially Agree	2
Disagree	15
No Clear Preference Expressed	0
No Comment	11
Total	38

4. Those who support the PV raised the following issues for the IPSASB to consider:
 - (a) Respondent 22 noted that fair value is not one of the measurement bases discussed in the Conceptual Framework.
 - (b) Respondent 32 seeks guidance on how to determine fair value, particularly in relation to the application of statistical models to determine tax revenue in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. In this context, Respondent 33 (who disagrees with the PV) also suggests that guidance be included in relation to the assessment of valuation for individual receivables versus a portfolio.
5. Staff recommend that these issues are taken into account when developing the requirements for the subsequent measurement of non-contractual receivables.
6. Further issues were raised by those who only partially agree with the PV and those who disagree with the PV.

7. Respondents 10 and 11 comment that the subsequent measurement of non-contractual receivables should be dependent on revenue recognition model. Both note that the discussion in the CP relates to statutory receivables, and may not be appropriate for other non-contractual receivables. In partially agreeing with the PV, both respondents comment that the proposed approach would be appropriate for statutory receivables as it appears to be the most workable.
8. Respondent 10 recommends that the IPSASB determine the presentation and disclosure requirements for statutory receivables starting from scratch, rather than looking to adopt all the disclosures from IFRS 7 *Financial Instruments: Disclosures* by analogy. They note that many of the IFRS 7 disclosures have been designed with commercial contractual arrangements in mind, with a focus on counter-party credit risk and would therefore not be applicable to statutory receivables. Similarly, Respondent 15 does not support the IPSASB's proposal requiring preparers to fair value receivables at each reporting date, as the cost of obtaining such fair value information will likely be higher than the benefit to users of the information.

Amortized Cost Approach

9. Six respondents (08, 10, 13, 15, 19 and 27) support the amortized cost approach, as this is the measurement approach used for contractual receivables. The respondents see no conceptual reason for using different measurement approaches for contractual and non-contractual receivables. Respondents 08 and 19 also commented that there could be difficulties in determining a fair value for items for which there was no market; the absence of information about the counter party's credit risk was cited as an example.

Cost Approach

10. Eight respondents (14, 24, 31, 33, 34, 35, 36, and 37) support the use of the cost model, although Respondent 36 also comments that it may be better to see what conclusions are reached in the IPSASB's *Public Sector Measurement* project. They consider that this would provide relevant and understandable information for users of the financial statements and would be easier to implement.
11. Respondent 34 comments that in their view, in the public sector context, reflection of the cost of financing in the measurement of the non-exchange receivables is not that relevant. The fact that some non-contractual receivables can be paid in the future periods may stem from the legislation and payment delay can already be taken into account in defining of face values by the legislator.
12. Respondent 35 commented that the cost approach is consistent with legislation.
13. Staff note that the arguments provided in support of the cost approach generally apply to statutory receivables, and may be less applicable to other non-contractual receivables. The IPSASB may wish to consider whether this supports the views expressed in paragraph 7 above that the subsequent measurement of non-contractual receivables should be dependent on revenue recognition model.

Decisions Required

14. The IPSASB is asked to consider the issues raised by respondents about the subsequent measurement of non-contractual receivables, and to provide initial directions to staff. Given that three approaches have similar levels of support, the IPSASB may wish to identify additional research that staff should undertake.

Non-Contractual Payables – Subsequent Measurement

1. The IPSASB is asked to note the issues raised by respondents about the subsequent measurement of non-contractual payables, and to provide direction to staff about how to address these at a future meeting.

Detail

2. The Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses*, included a Specific Matter for Comment (SMC) relating to the initial measurement of non-contractual payables:

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

3. Respondents' support for the different options are summarized below:

Response to PV 8	Number of Respondents
Cost of Fulfillment Approach	13
Amortized Cost Approach	3
Hybrid Approach	3
IPSAS 19 requirements	6
Other Approaches	3
No Comment	10
Total	38

Cost of Fulfillment Approach

4. Those who support the cost of fulfillment approach (Respondents 05, 07, 08, 11, 18, 19, 24, 29, 32, 33, 34, 36 and 38) generally consider that the approach is easy to apply and produces understandable information to users of financial statements. They also consider the approach is consistent with the Conceptual Framework. Respondents provided the following additional reasons and comments:
 - (a) Respondent 05 comments that the approach is consistent with the requirements of IPSAS 19. Similarly, Respondent 29 notes that IPSAS 19 could be used as an alternative to the cost of fulfillment approach. Staff note that the estimation approach used to derive the

cost of fulfillment is very similar to that used in IPSAS 19, but notes that the treatment of measurement uncertainty is different. IPSAS 19 includes a recognition threshold, which the cost of fulfillment approach does not, instead reflecting measurement uncertainty in measurement rather than recognition. In practice, when discussing non-contractual payables, the two approaches may have the same outcome.

- (b) While provisionally supporting the cost of fulfillment approach, Respondent 07 comments that they would need to better understand the differences of the information produced from a public interest or users' perspective to conclude on this matter. Similarly, Respondent 21 (who supports the hybrid approach) comments that further work on this issues is required.
- (c) Respondent 08 notes that the cost of fulfilment is furthermore likely what entities have been applying in the absence of specific guidance. (Respondent 10 makes a similar comment about the IPSAS 19 requirements.) Respondent 08 comments that, alternatively, measuring non-contractual payables at amortized cost would be in line with the financial instruments they resemble, and because these payables are generally short-term in nature, the effect of discounting may often be negligible.
- (d) Respondent 11 prefers the cost of fulfillment approach as this is consistent with the approach taken in ED 63, *Social Benefits*. However, they also comment that the subsequent measurement of non-contractual payables should be dependent on an expenses recognition model. Staff consider that this may provide some support for the hybrid approach.
- (e) Respondent 34 considers that the cost of financing has less importance, in particular as the non-contractual payables in private sector are usually short-term. They do not consider the effective interest rate method to be appropriate for non-contractual payables.
- (f) Respondent 36 comments that it may be better to see what conclusions are reached in the IPSASB's *Public Sector Measurement* project. However, they consider the cost of fulfillment approach could be used.

Amortized Cost Approach

- 5. Respondents 13, 15 and 27 support the amortized cost approach as they consider that that non-contractual and contractual payables are similar and should be accounted for similarly.

Hybrid Approach

- 6. Respondents 16, 21 and 26 generally support the hybrid approach as they consider that only non-contractual payables with cash flows that are certain in timing or amount can be considered to be analogous to financial instruments.

IPSAS 19 Requirements

- 7. Respondents 10, 14, 20, 31, 35 and 37 generally supported the IPSAS 19 requirements as they consider that the best estimate of the expenditure required to settle the present obligation at the reporting date would likely be appropriate for the subsequent measurement of many non-contractual payables.
- 8. Respondent 10 also comments that the subsequent measurement of non-contractual payables should be dependent on expenses recognition model (see also the comments at paragraph 4(d))

above). This respondent considers that the IPSAS 19 requirements could be used until the IPSASB does further work on the measurement of non-contractual payables.

9. As noted above in paragraph 4(a), staff consider that the IPSAS 19 requirements may have the same practical outcome as the cost of fulfillment approach.

Other Approaches

10. Three respondents suggested other approaches, as follows:
 - (a) Respondent 10 proposes a variation of the hybrid approach, where non-contractual payments are measured at either fair value or amortized cost. They comment that this would be consistent with the measurement of other financial liabilities.
 - (b) Respondent 22 notes that, in their jurisdiction, the measurement approach is dependent on the expense recognition approach, and that all four approaches discussed in the CP may be used.
 - (c) Respondent 28 notes that, in their jurisdiction, non-contractual payables are measured at the amount that has to be paid (without discounting for long-term payables).

Decisions Required

11. The IPSASB is asked to consider the issues raised by respondents about the subsequent measurement of non-contractual payables, and to provide initial directions to staff. The directions may be dependent in part on whether the IPSASB supports staff's conclusion that the IPSAS 19 requirements may have the same practical outcome as the cost of fulfillment approach.