

Ian Carruthers
Chairman
IPSASB
IFAC

Submitted via website

Brussels, 22 May 2019

Accountancy Europe response to the public consultation on ED67 *Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)*

Dear Sir,

1. We are pleased to provide our response to the IPSASB's public consultation on ED67.
2. We commend the IPSASB in producing this exposure draft. It provides clarity around the treatment of collective and individual services not covered by *IPSAS 42 Social Benefits*, and also provides guidance on the treatment of emergency relief, where we have seen much divergence in practice.
3. However, we question whether adding guidance in respect of collective and individual services to IPSAS 19, which deals with provisions and contingencies, is appropriate when the proposed treatment of these services is to not recognise a provision or a contingency.
4. As the proposed amendments in respect of the accounting treatment for collective and individual services are intended to complement IPSAS 42, perhaps a more appropriate location for the guidance would be as an appendix to that standard. We do not believe that the fact that the proposed accounting treatment draws upon paragraph 26 of IPSAS 19 means that the guidance must be in an Appendix to IPSAS 19.
5. An alternative would be for the guidance in respect of the accounting treatment for collective and individual to be included in the non-exchange expenses standard that is under development by the IPSASB. This would have the advantage of ensuring that the accounting treatment was consistent with the proposed performance obligation approach, albeit we appreciate that this would result in considerable delay in the guidance being issued.
6. Our detailed responses to the specific matters for comment in the exposure draft are set out below.

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 in the definitions?

7. We broadly agree with the definitions of collective services and individual services, although we have included below some suggestions for improving the consistency of definitions and examples in practice.
8. However, in respect of individual services, we do note some inconsistencies in AG7 to AG9 in respect of the delivery of **goods** to individuals and households – it is mentioned in some paragraphs, but others just relate to the delivery of services.
9. Additionally, the examples in the document only relate to services– we believe that it would be helpful to provide some examples of public sector entities that provide goods to individuals to address the needs of society as a whole.
10. The guidance in AG2 on collective services bears much in common with the concept of *public goods*, long established in economics. To provide users with access to more guidance without expanding the length of ED 67, it could be beneficial to refer to this already existing body of research.

For example, AG2 could be expanded to include “the concept of collective services is drawn from work on public goods introduced by PA Samuelson and expanded by E Ostrom. Further guidance, particularly in respect of the characterisation of public goods being non-rivalrous and non-excludable and their differentiation from *common-pool resources* can be obtained from their research”.

11. As discussed in matter for comment 3, the form of payment, and the economic substance that it represents, is an important characteristic to separate *social benefits* from *individual services*. Consequently, we believe that the definition of individual services in AG3 should specifically refer to the fact that the provision of benefits in cash or cash equivalents are excluded.

Specific Matter for Comment 2

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

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

12. We agree that no provision should be recognised for collective services.

Specific Matter for Comment 3

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

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

13. In many circumstances, we agree that no provision should be recognised for individual services.
14. However, we believe that there may be circumstances where a treatment mirroring that in IPSAS 42 would be more appropriate.

15. The table in AG6 suggests that the main distinction between social benefits and individual services is that social benefits are paid in cash or cash equivalents. Vouchers, for example, are not included as a cash equivalent. We understand that the IPSASB considers that the form of payment reflects an underlying difference in economic substance – this should be clarified in AG7 to ensure that the payment method is not over-emphasised in importance when characterising the services in question.
16. This could lead to a situation where the accounting treatment of a social benefit fulfilling the same basic societal need is accounted differently depending on its method of payment.
17. Additionally, it could lead to the situation where two elements of a split-payment of a social benefit, one element paid in cash and the other by some other means, are accounted for differently despite fulfilling the same purpose.
18. We are not suggesting re-opening IPSAS 42, but we believe that this is an opportunity to examine whether restricting the accounting treatment of social benefits to cash payments only is conceptually sound for all circumstances and whether there are occasions when the accounting treatment of individual services provided to mitigate social risks should follow IPSAS 42.
19. We also believe that AG13 could be more precise in respect to when individuals or households have entitlement to the individual services. Currently, AG13 refers to ‘when individuals and/or households **access** individual services’ – we believe that there may be occasions where eligibility criteria have been satisfied prior to accessing the services and this could lead to the recognition of a provision.

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?

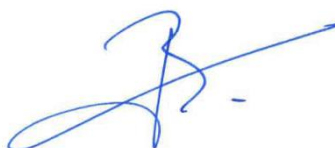
20. We agree with the proposed accounting treatment for emergency relief:
 - a. Requiring a provision or the disclosure of a contingent liability when an explicit policy decision has been made by a government or other public sector entity to provide relief for a specific emergency
 - b. Not requiring a provision where the delivery of such relief is part of the ongoing activity of government or another public sector entity
21. However, in respect of the wording in AG20, we believe that the sentence ‘*This decision could give rise to a present obligation.....*’ is too vague and that it would be helpful to preparers to have more definite guidance as to the factors that should be considered to determine whether a present obligation has arisen.
22. We also believe more consideration may need to be given to how this section interacts with IPSAS 42.
23. In particular, a domestic emergency could result in a government having to respond with both temporary relief and also an additional provision of social benefits. For example, an earthquake could destroy houses, requiring the government to provide temporary accommodation. It may also temporarily or permanently destroy business premises, making people unemployed and thereby increase demand for social benefits.

24. We believe that ED67 should consider the primacy of IPSAS 19 and 42 in such circumstances. A larger provision may result if IPSAS 19 is applied to all the payments arising from the emergency, rather than if some of the costs are treated as social benefits under IPSAS 42. It is also probable that some cost elements would be recognised at an earlier point in time under IPSAS 19 than under IPSAS 42.

Sincerely,



Florin Toma
President



Olivier Boutellis-Taft
Chief Executive

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