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Mr John Stanford
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Re: Response to Exposure Draft 67 *Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft 67 *Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)* published in January 2019 (ED67).

The CNoCP approves of the IPSASB tackling the issue of social expenses in general and we fully agree with the accounting treatments proposed in ED67. We also commend the Board for the publication of IPSAS 42 *Social Benefits*. Both ED67 and IPSAS 42 deal with expenses that are specific to the public sector and they well reflect the application of the definition of a liability and the related recognition principles.

We understand the overarching objective to provide guidance in IPSAS 19 *Provisions, Contingent Assets and Contingent Liabilities* on the accounting treatment for transactions that might have been previously labelled social benefits. With the recent publication of IPSAS 42 that sets out a narrow definition for social benefits, there is a need to provide guidance on collective and individual services in a timely manner. However, as to the timeframe of ED67, because we consider that the issue is tightly linked to that of non-exchange expenses, we would rather comment on ED67 at the

same time as on the future ED on Non-Exchange Expenses. This would allow for enhanced consistency.

With respect to the definitions of collective and individual services set out in ED67, we understand that cash transfer is a critical feature of social benefits in IPSAS 42 and that conversely, it is not a feature of either collective or individual services. We believe that such a difference should be factored into the definitions of both collective and individual services in ED67.

In that context, we would urge the Board to consider the overall consistency of the guidance provided with published literature and current projects in progress. More specifically, in many instances, the accounting treatment is one and the same, though related transactions are hosted in different standards. We believe that this is all the more relevant that we understand that the distinction between exchange and non-exchange transactions is currently being discussed by the Board in the light of the performance obligation approach. When all projects on expenses are finalised, there might be a need to ensure scope consistency and, from a public interest viewpoint, a correct understanding from users and an easy implementation.

Responses to the detailed questions set out in ED67 are presented in the following appendix.

Yours sincerely,

Michel Prada

APPENDIX

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?

Firstly, we would like to bring to the attention of the Board that paragraph 6A added to the scope section of IPSAS 19 mentions that transactions under scrutiny are “non-exchange” transactions. In the context of the current discussions on the exchange/non-exchange distinction and that of “with or without performance obligation”, we would urge the Board to better articulate the two notions.

With respect to the definitions of both collective and individual services, the table presented in paragraph AG6 highlights a major difference with social benefits: collective and individual services do not involve cash transfer to eligible beneficiaries. Though a critical feature that should help differentiating from social benefits, absence of cash transfer is not factored in the definitions of collective and individual services. We would suggest amending the definitions so that they reflect that important feature.

In addition, the assessment in paragraph AG8 that “services paid for by beneficiaries and subsequently reimbursed should be deemed meeting the definition of individual services rather than that of social benefits” should be brought forward to the core standard. Some clarification would actually be welcomed in the standard to help distinguishing expenses that proceed from a cash transfer, and are rightfully in the scope of IPSAS 42, from those expenses in the scope of ED67 that involve a cash transfer at some point that should not be considered a cash transfer in substance. This is typically the case when a beneficiary is reimbursed for some advance payment of a service, as in paragraph AG8. Such clarification would help ensuring that identical economic phenomena, though entailing different nature of flows, are treated in the same way in one same standard. Finally, because it might also trigger questions on how this requirement applies to reimbursements that cover most, but not all, of the expense incurred by beneficiaries, additional AGs could be expected to help apply the standard’s requirements in those specific instances. Illustrative examples would also be welcome to illustrate the variety of services and their specific features to help distinguish from social benefits.

With respect to the distinction between collective and individual services, and though paragraphs AG2 and AG3 explain the difference, we question the need for that distinction,

especially as the accounting treatment is the same for both items. Simplifying the requirements by regrouping both types of expenses under one same label would facilitate implementation.

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?

We fully agree that there is no present obligation to provide future collective services beyond that provided in the reporting period.

In the related application guidance paragraphs, we note the use of “exchange” or “non-exchange”. Consistent with our comment in Specific Matter for Comment 1, we would recommend that the articulation with the new “with or without performance obligation” distinction be clarified.

In paragraph AG11, to avoid confusion as to the parties to the “exchange” transactions on the one hand and the “non-exchange” transactions on the other hand, we would clarify that the “non-exchange” transactions are those between the reporting entity and the community it provides collective services to. Exploring further, one could call into question whether the provision of collective services to a community is a transaction that would need reporting from an accounting viewpoint. In fact, there is no measurable substance to what is transferred to the community, other than what is already reflected in the accounts through the cost to acquire the resources necessary to provide the service. In other words, financial reporting principles may not apply to that specific relationship between a public sector entity and a community: such a relationship is more in the substance of social contract.

From the perspective of the paragraph above, conversely, individual services have the substance of transactions in kind that can be reported in the financial statements.

As far as presentation and disclosure of collective and individual services are concerned, and because those transactions do not give rise to liabilities, IPSAS 19 disclosure requirements are not applicable. Rather, in accordance with paragraph AG14, application of more generic standards is recommended, for instance IPSAS 1 *Presentation of Financial Statements*. This underlines that IPSAS 19 may not be the most relevant standard to host the proposed guidance on collective and individual 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?

We fully agree that there is no present obligation to provide future individual services beyond that provided in the reporting period.

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 on the proposed accounting for emergency relief.

However, in paragraph AG20, we are concerned that “government announcements” could give rise to a present obligation. In some jurisdictions, “government announcements” are not enforceable and would not entail the recognition of a liability. We would therefore recommend that it should be deleted from the list of instances provided in the last sentence of the paragraph. We actually mention in the conceptual framework for public accounts we developed in France that:

[137] *Public entities are set up to exercise responsibilities which are clearly defined by a legal or regulatory framework, and their capacity to make commitments in the specific field of public action is strictly regulated and therefore cannot by definition give rise to constructive obligations.*

[138] *Public entities do not therefore have liabilities or contingent liabilities arising from constructive obligations specific to public action.*