

Responses to IPSASB ED 67: Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)
(January, 2019; Comments due: May 31, 2019)

EXPOSURE DRAFT 67 (ED 67)
COLLECTIVE AND INDIVIDUAL SERVICES AND EMERGENCY RELIEF
(AMENDMENTS TO IPSAS 19)

The Technical Director
International Public Sector Accounting Standards Board (IPSASB)
International Federation of Accountants
277 Wellington Street West, 6th floor
Toronto, Ontario M5V 3H2 CANADA

Brasília, Brazil
May 31st, 2019

Dear Mr. John Stanford,

The Conselho Federal de Contabilidade (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on the IPSASB Exposure Draft 67: *Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)*. CFC, along with its regional arms - Regional Accounting Councils or Conselhos Regionais da Contabilidade (CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Advisory Board for Public Sector Accounting Standards (GA/NBC TSP) of the CFC.

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.

Regards,

CONSELHO FEDERAL DE CONTABILIDADE

APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, one federal district and more than 5,500 municipalities. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements. The discussion about recognition and measurement of the accounting elements, just like non-exchange expense and revenue, is important for understanding how the autonomous levels of governments interact in the conduction of public policies across the country and how they can deal with related provisions, and contingent liabilities.

In this document, we present the contributions for the consultation paper based on the experience of our jurisdiction and also bringing a principles-based approach. In general, we believe that the IPSASB propositions of amendments in IPSAS 19 needs to be further more discussed and developed, specially regarding some definitions that needs to be much more detailed and explained.

In the next section, we present our comments and answers on the specific matters for comment of the exposure draft.

2. Responses to the 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?

The GA/CFC does not agree with the definitions of collective services and individual services that are included in this Exposure Draft.

In our point of view, the definitions of collective services and individual services are aligned, respectively, with those of pure public goods and mixed/merit public goods presented in the literature on public sector finances (e.g.: Musgrave, Richard A.).

The term “**public goods**” or “**pure public goods**” refers to products (**goods or services**) that are related to the premises of no excludability and no-rival consumption. In other terms, is quite difficult to keep nonpayers from consuming, and of which anyone can consume as much as desired without reducing the amount available for others (no rivalry). Examples include national defence and environment preservation. Public goods are usually provided by a government because a private business lacks the incentive linked to the profitability to produce them.

Regarding “**mixed goods**” or “**merit goods**”, that can also be “**goods**” or “**services**”, they are deemed to be socially desirable, and which are likely to be under-produced and under-consumed through the market mechanism. Examples of merit goods include education, health care, welfare services, housing, fire protection and public parks. In contrast to “public goods”, “merit goods” could be provided through the market, but not necessarily in sufficient quantities to assure the desired social welfare. Thus, goods such as education and health care are provided by the state, but there is also a parallel private sector provision.

Regarding the **definition of collective services**, which in our view equals “pure public goods” in economic theory, we disagree with the proposed definition as the scope refers to “services” only, and there is no mention of “goods”. This contradicts the definition already enshrined in the international economic literature on public goods, that encompasses “goods” and also “services”. Alternatively, if the IPSASB decides to maintain the definition expressed in this ED, we believe that will be necessary to further detail the rationale of the adopted definition on the basis of conclusions of the Standard and even explain the reasons for not adopting the established economic literature definition, or the exclusion of the provision of goods cannot be justified.

Regarding the **definition of individual services**, we do not agree because besides the fact that the the benefits extend to the entire society, there are benefits that are provided to an specific individual/family. For example, in the case of vaccination, fighting an epidemic case of a disease benefits the whole society, but there is a benefit that is specific to the individual who has been vaccinated. Thus, for the definition to be more consistent with that of “merit goods” in economic theory, we suggest that it be modified as follows:

Individual services are goods and services provided to individuals and/or households by a public sector entity that are intended to address the specific needs of individuals and/or households and also generating benefits for society as a whole.

We also suggest that in the Application Guidance, in paragraphs AG2 and AG3, another characteristic of “pure public goods” can be more explained, which is the non-exclusion of consumption.

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?

The GA/CFC agrees that no provision should be recognized for collective services using as a premise the fact that production of the service is totally carried out by the public sector entity, therefore, the logic that the event that gives rise to the obligation is the acquisition of inputs required for service production applies.

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?

The GA / CFC does not agree that no provision should be recognized for individual services.

In the case of collective services, since these are typical functions of the Government, both the funding and the production of the service are usually carried out by public sector entities. In the case where the public sector entity is responsible for funding, but not for the production, it is possible that the goods and services provided to individuals/households are purchased from private (profit or non-profit) entities. It is important to note that, in this case, the acquisition is not the inputs needed for the production, but the direct outputs consumed by the individuals/households, e.g., medical appointments. Thus, the argument that the event that gives rise the obligation is the acquisition of the necessary inputs to the production does not apply.

Additionally, regarding the situations mentioned in paragraphs AG8 and AG9, we believe that a provision should be recognized.

In the case of reimbursements, the past event that gives rise to the obligation is the issue of a regulation or an agreement that creates the expectation in the individual/family that, when paying for the service, they will be reimbursed. In this case, the entity shall estimate the number of reimbursement requests and the amount of financial resources required to meet such requests in accordance with established regulations. We also believe that it must be made clear that this reimbursement is not carried out through the tax system (tax expenditure), in which case the IPSAS 19 would not be applied.

The same logic of contracting direct outputs, rather than inputs, applies to vouchers. In this case, both the private sector partner and the public sector entity shall estimate the volume and amount of vouchers that will be used at any given time. Thus, the past event is the distribution of vouchers to the individuals/households, which is similar to the airlines frequent flyers programs. Therefore, a provision must be recognized.

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?

The GA / CFC does not agree with the proposed accounting for emergency relief.

We believe that there is a trade-off between the continuous activities regarding the monitoring of situations and the actions necessary to alleviate the needs of the population in case of occurrence of, for example, a

natural disaster. The government agency that monitors natural disasters knows the risks of occurrence, as well as the impacts that occurs. Therefore, we do not agree that public sector entities consider transactions only from the moment of the occurrence of the disaster, because what justifies the existence of such an agency is to prevent it from occurring and, if it occurs, that the losses are mitigated. In addition, the agencies assess the risks of occurrence of events and their impacts, therefore, there are bases for recognition of provision or disclosure of contingent liabilities. In cases where it is possible to measure impacts, a provision should be recognized, but considering that reliable measurement is very difficult in most situations, we understand that at least a contingent liability needs to be disclosed. The impacts of natural disasters can even be minimized by decisions of public sector entities. For example, if there is a high risk of flooding over a period of time, the public manager may decide to widen the river bed or rebuild the bridge after flooding has occurred. Therefore, there is no way to disregard the impact at two different times because what gave rise to the liability was the risk of flood. Therefore, the manager will recognize the obligation related to the inputs needed to the river's widening or the provision regarding the reconstruction of the bridge that is probable and that can be reliably measured. The usefulness of accounting information could be key in this case and justify the costs of providing disaster relief information in financial statements, in order do prevent the consumption of resources without the necessary funding.