



KOREA INSTITUTE OF PUBLIC FINANCE

Government Accounting and Finance Statistics Center

IPSASB Exposure Draft 67

Collective and Individual Services and Emergency Relief

(Amendments to IPSAS 19)

Comments on ED 67, Collective and Individual Services and Emergency Relief

May 31, 2019

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John Stanford
Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

**Re: The comments on the Exposure Draft 67,
Collective and Individual Services and Emergency Relief
(*Amendments to IPSAS 19*)**

Dear Mr. Stanford,

The Government Accounting and Finance Statistics Center (hereinafter referred to as the “GAFSC”) at Korea Institute of Public Finance would like to thank for the opportunity to response to Exposure 67, *Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19)* issued by the International Public Sector Accounting Standards Board.

The comments have been prepared and reviewed by the staff and the Government Accounting Advisory Committee of the GAFSC, and are available in the following pages. Please feel free to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staff of the GAFSC, Stella Kim (sjkim@kipf.re.kr).

Sincerely,

박윤진

Park, Yoon-Jin
Acting Director of GAFSC at KIPF

Specific Matter for Comment (SMC) 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?

[GAFSC comments] We agree with the definitions of collective and individual services proposed in the ED 67, but recommend that the following should be considered:

- ① The collective services are limited to services, and individual services are limited to goods and services. It is ambiguous that the reason for such a difference is whether there are no cases where goods have been provided as collective services, or goods do not meet the definition of collective services due to the notion of ‘rivalry in consumption.’
- ② We also recommend developing the definition of emergency relief in paragraph 18. The newly added paragraph 6A in IPSAS 19 mentions both (a) collective and individual services and (b) emergency relief. In addition, the ED 67 states that “the delivery emergency relief in response to specific emergencies requires an explicit policy decision to be made by a government or other public sector entity. This decision could give rise to a present obligation, requiring the recognition of a provision when the criteria in paragraphs 22–34 of this Standard are satisfied.” In other words, unlike collective and individual services, since the recognition of a provision for emergency relief must be determined by the preparers of financial statements, emergency relief should be clearly defined in IPSAS 19.

Specific Matter for Comment (SMC) 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?

[GAFSC comments] We agree that no provision should be recognized for collective services prior to the delivery of such services.

However, under the ED 67, AG 10 of IPSAS 19 states that the delivery of collective services should not trigger the recognition of provisions in accordance with the paragraph 26 of IPSAS 19 because those services

are ongoing activities of the public sector entity. Such a statement may be misleading as if the recognition of provisions could be determined by the nature of activities (i.e. ongoing). Moreover, AG 10 of IPSAS 19 may result in unnecessary disputes over the types of services which are considered as the government's ongoing activities. Accordingly, we suggest revising AG 10 as underlined in the box below:

AG 10. Collective services are ongoing activities which are not independent of the entity's future actions of the public sector entity that delivers the services. There are no past events that give rise to the present obligation of the public sector entity prior to the delivery of the service. Paragraph 26 of this Standard states that no provision is recognized for costs that need to be incurred to continue an entity's ongoing activities in the future". Consequently, any obligations that may arise for collective services are not independent of the entity's future actions, and in accordance with the principles of this Standard, no provision is recognized for the intention to deliver such services.

Specific Matter for Comment (SMC) 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?

[GAFSC comments] We agree that no provision should be recognized for individual services prior to the delivery of such services.

However, under the ED 67, AG 12 and 13 of IPSAS 19 states that the delivery of individual services should not trigger the recognition of provisions in accordance with the paragraph 26 of IPSAS 19 because those services are ongoing activities of the public sector entity. Such a statement may be misleading in a way that the recognition of provisions can be determined by the nature of activities (i.e. ongoing), resulting in unnecessary disputes over the types of services which are considered as the government's ongoing activities. Accordingly, we suggest revising AG 12 and 13 as underlined or struck-through in the box below:

AG 12. Similarly, individual services are ongoing activities which are not independent of the entity's future actions of the public sector entity that delivers the services. The delivery of individual services results in the past events that give rise to the present obligation.

AG 13. The public sector entity uses these resources to deliver services to specific individuals and/or households in non-exchange transactions. Where individuals and/or households access individual services, the entity may have a number of future obligations relating to the delivery of these individual services. ~~Such obligations are an aspect of the ongoing activities of the public sector entity.~~ Similar to collective services, any obligations that may arise for individual services are not independent of the entity's future actions, and in accordance with the principles of this Standard, no provision is recognized for the intention to deliver such services prior to individuals and/or households accessing the services.

Specific Matter for Comment (SMC) 4

Do you agree with the proposed accounting for emergency relief? If not, how do you think emergency relief should be accounted for?

[GAFSC comments] We do not agree with the proposed accounting treatment for emergency relief because the accounting requirements in the ED 67 may conflict with other IPSAS and it is also difficult to apply in practice.

First, the recognition criteria for liabilities concerning emergency relief may contradict the recognition criteria for liabilities concerning social benefits under the general approach in IPSAS 42, '*Social Benefits*.' According to paragraph 9 and AG 12~15 in IPSAS 42, the general approach requires liabilities to be recognized when beneficiaries satisfy all the eligibility criteria to receive the next benefits, and meeting all the eligibility criteria is a past event that gives rise to a present obligation. In comparison, AG 20 and 21 in the ED 67 prescribe that an explicit policy decision made by a government or other public sector entity, including government announcements, the passing of legislation and other government actions, may give rise to present obligations in case of the delivery of 'emergency relief in response to specific emergencies'.

Although 'emergency relief in response to specific emergencies' is different from social benefits in a sense that it is not provided to satisfy the needs of the society as a whole and mitigate social benefits, the economic substance of the transaction is quite similar to social benefits since 'emergency relief in response to specific emergencies' delivered in cash is provided to individuals (or households) who meet all the eligibility criteria. Accordingly, we think that the recognition criteria for liabilities concerning 'emergency relief in response to specific emergencies' transferred in cash need to be aligned with the recognition criteria under the general approach in IPSAS 42 or be revised to apply the general approach by analogy.

Secondly, it may be difficult in practice to distinguish 'emergency relief delivered as an ongoing activities' from 'emergency relief in response to specific emergencies' because both are provided on the basis of statute or government policy and may be provided in combined forms (i.e. cash, goods, services, or combination of all, etc.). Therefore, from the perspective of preparer of financial statements, it may be difficult to distinguish in practice how much of the emergency relief provided by the government is provided by ongoing activities and how far it is provided by explicit policy decisions.

For example, in Korea, the "Special Act on Remedy for Damage Caused by the April 16 Sewol Ferry Disaster, Assistance Therefor, etc. (hereinafter referred to as the "Act")" was enacted to support the victims of the Sewol Ferry which had been sunken in 2014. According to the Act, the Korean government is

responsible for the following:

- ① set up a government body (a review committee);
- ② provide monetary supports to the victims; and
- ③ establish and operate a trauma center

The goods and services provided to the victims under the Act are considered the emergency relief in AG 17 of the ED 67, the passing of the Act is the explicit policy decision in AG 20 and 21 of the ED 67. The ED 67 requires preparers of financial statements to distinguish the three types of emergency relief into ‘emergency relief delivered as an ongoing activity’ and ‘emergency relief in response to specific emergencies.’ Where ① ② can be considered the latter, they can also be viewed as the former according to AG 18.

For your information, the Korean National Accounting Standards (hereinafter referred to as the “KNAS”) require the following accounting for the government’s obligations to the victims under the Act:

- ① and ③ → Expense all upon the payment of salaries or rental expenses
- ② → Recognize payables to the extent of the monetary supports approved by the government upon the approval of payment (The KNAS requires that non-exchange expenses give rise to a present obligation upon the approval of payment because the government is not likely to avoid the future resource outflows at that moment.)

In conclusion, the accounting requirements for emergency relief in ED 67 are likely to conflict with IPSAS 42, and it is difficult to distinguish ‘emergency relief delivered as an ongoing activity’ and ‘emergency relief in response to specific emergencies.’ Therefore, we suggest sorting out emergency relief delivered in cash into a separate item and then aligning the recognition criteria for such item with the recognition criteria under the general approach in IPSAS 42. We also suggest revising AG 20 and 22 as underlined or struck-through in the box below:

AG 20. The delivery of emergency relief in response to specific emergencies requires an explicit policy decision to be made by a government or other public sector entity, assuming that beneficiaries meet eligibility criteria. Meeting eligibility criteria is a past event. ~~This decision could give rise to a present obligation, requiring the recognition of a provision when the criteria in paragraphs 22–34 of this Standard are satisfied. For example, in these circumstances a present obligation could arise as a result of government announcements, the passing of legislation and other government actions.~~

AG 22. An entity considers the specific circumstances in which emergency relief is being delivered. Where such delivery of emergency relief is an ongoing activity of government (or other public sector entity) and is analogous to the delivery of collective services and/or individual services as set out in paragraphs AG2-AG16, no provision is recognized before the relief is delivered. ~~In other circumstances, an entity considers the requirements of this Standard in determining whether to recognize a provision or disclose a contingent liability~~

General Comments on SMCs 2 ~ 4

[GAFSC comments] According to paragraph 25, 26, and 27 in IPSAS 19, the existence of a present obligation to recognize a provision for certain services depends on a past event (an obligating event) existing independently of an entity's future actions, not on whether the delivery of the services are ongoing activities of the public sector entity. Therefore, in order to revise AG 10, 12, 13, and 22 more clearly, we recommend stating more explicitly that no provision should be recognized, because there is no obligating event prior to the delivery of collective and individual services and emergency relief provided on an ongoing basis and so the obligation to provide those services is not a present obligation that exists independently of the entity's future actions.