IPSASB

STAFF QUESTIONS AND ANSWERS

April 2020

COVID-19: RELEVANT IPSASB ACCOUNTING GUIDANCE

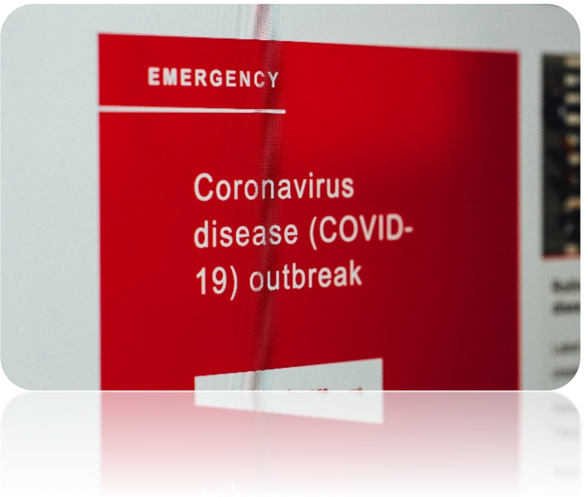
This Questions and Answers (Q&A) publication is issued by the staff of the International Public Sector Accounting Standards Board® (IPSASB) to provide insight into the financial reporting issues associated with COVID-19 government responses, and the relevant International Public Sector Accounting Standards™ (IPSAS™) and other guidance already available.

> *"The objective of this document is to indicate the accounting implications of COVID-19-related government initiatives, including how IPSAS and other IPSASB guidance deal with transactions and events which arise because of the pandemic."*

This publication does not constitute an authoritative pronouncement of the IPSASB, nor does it intend to amend, or override the requirements of existing IPSAS or provide further implementation guidance. This publication is not meant to be exhaustive and is not a substitute for IPSAS.

Background

The COVID-19 pandemic and the government interventions to mitigate its effects have both immediate and on-going financial impacts. The nature and scale of these interventions vary widely across jurisdictions, as will their longer-term impacts. However, the significant fiscal interventions launched by many governments mean that high-quality accrual-based financial reporting is needed now, more than ever, as it provides better information for decision-making, improves transparency on how public resources are used, allows citizens to hold decision makers to account, and better positions governments to address the balance sheet impact of the pandemic. It is therefore important that the recent momentum towards greater adoption and implementation of accrual financial reporting in the public sector is maintained.



This Q&A highlights issues which may be encountered as a result of COVID-19 and the related jurisdictional responses to dealing with the pandemic. While not exhaustive, it identifies a number of IPSAS which may be applicable in order to capture the economic consequences of the different types of transactions. It does not reference any specific transaction, nor is it intended to be used as application or implementation guidance. The terms and conditions of specific transactions can be highly complex and wide-ranging.

__This document has been prepared by IPSASB staff. It is a non-authoritative document issued for information purposes only.__

Q1. ***What are the main different types of government interventions being made to mitigate the impacts of COVID-19?***

The financial impact of COVID-19 is truly global, with no jurisdiction untouched. Governments have been quick to respond, and as the pandemic continues to unfold, so do the economic interventions. Government interventions differ by jurisdiction, but generally fall into the following categories:

- **Direct government expenditure**, including providing care to those worst affected by the pandemic, limiting the spread of COVID-19 through testing and the provision of protective equipment, ensuring that supply chains are maintained, and that individuals and households adhere to government regulations;
- **Support for individuals**, including increases in access to social benefits, such as income support, and unemployment benefits, delays to tax payment deadlines and deferrals of tax installments;
- **Support for businesses and other public sector entities**, including grants, loans, equity investments, distressed asset purchases and tax relief; and
- **Support for financial systems**, including monetary policy instruments such as lowering interest rates and purchasing government bonds and other government backed securities.

Regardless of the type of COVID-19 intervention, it is important for governments to consider the impact on their statements of financial position and financial performance. It is important for decision makers to have up-to-date financial information in order to understand the available capacity for future interventions both during the pandemic and its aftermath.

Q2. ***Which IPSAS should be considered in connection with accounting for direct government expenditure?***

The prime source of guidance is IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets,* which provides requirements for evaluating when a provision should be recognized for a planned economic intervention to reduce the financial impact of COVID-19. In January 2020, the IPSASB published amendments to IPSAS 19 to provide guidance on accounting for collective and individual services. These are services provided to address the needs of society as a whole, such as providing care to those impacted by the pandemic.

Q3. ***Which IPSAS are most relevant to support provided to individuals?***

Governments are making a wide range of interventions to mitigate the impact of COVID-19 on citizens, including addressing the problems of employees either laid off or furloughed by their employers, or the self-employed who cannot work because of restrictions. Therefore, the guidance in a number of IPSAS may be relevant:

- IPSAS 42, *Social Benefits,* and, as noted above, the guidance in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Asset*s, relate to collective and individual services:
    - o Provide public sector accounting requirements related to cash transfers and other benefits provided to individuals and/or households to mitigate the effect of social risks;
    - o Provide accounting requirements for collective services and individual services provided to address the needs of society as a whole; and

  - May be relevant as governments make interventions to reduce the negative impacts of COVID-19 by increasing government benefits such as guaranteeing a minimum level of income.

- IPSAS 39, *Employee Benefits*, applies to both additional sick leave and redundancy payments provided to the employees of public sector entities. In addition, negative market conditions may be an indicator of a need to remeasure the plan assets and liabilities of long-term employee benefit plans.

- While not yet a final standard, the IPSASB recently issued Exposure Draft (ED) 72, *Transfer Expenses*. ED 72 provides public sector guidance for the first time, on the recognition and measurement of transfer expenses, which are expenses, other than taxes, in which a good, service, or other asset is provided to another entity without directly receiving any good, service, or other asset in return. The proposed ED 72 guidance is likely to be applicable to the transfer of resources from governments to individuals, as well as businesses and other levels of government in response to the COVID-19 pandemic.

Q4. *Which IPSAS provide guidance on support for businesses and other public sector entities?*

A number of IPSAS could be relevant, according to the types of COVID-19 related interventions being made:

- IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets,* provides guidance for evaluating when a provision should be recognized for a planned economic intervention to reduce the financial impact of COVID-19.

- ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations* were released at the same time as ED 72. For COVID-19 intervention programs which do not require the recipient to provide any goods or services in return, the receipt of transfers will likely be treated as revenue under ED 71. It should be noted that the accounting for transfer revenue under ED 71, as well as existing IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, has been developed specifically for the public sector and therefore it differs from accounting for government grants under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, which provides a corporate perspective.

- IPSAS 34, *Separate Financial Statements*, IPSAS 35, *Consolidated Financial Statements*, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements,* and IPSAS 38, *Disclosure of Interests in Other Entities*, provide guidance on accounting for interests in other entities. These standards may be relevant to the accounting impact of COVID-19 interventions, such as the establishment of a newly formed government entity to distribute or administer relief, or to assess whether an investment in another entity (such as when a government makes an equity investment) results in a change of control.

- Additional information on the compatibility for consolidation purposes of IPSAS and commercial public sector entities is available in the Q&A: State Owned Enterprises and IPSAS-based Consolidated Financial Statements. This may be useful where a private company becomes state-owned as a result of the nature and extent of government support.

Q5. ***Which IPSAS are relevant to support for financial systems?***

As during the Sovereign Debt Crisis, governments, often working with central banks, are adopting a number of approaches to financing their own significantly increased funding requirements, as well as supporting their economies. The IPSAS guidance most likely to be relevant includes:

- The financial instruments suite of standards, IPSAS 28, *Financial Instruments: Presentation,* IPSAS 29, *Financial Instruments: Recognition and Measurement,* IPSAS 30, *Financial Instruments: Disclosures* and IPSAS 41, *Financial Instruments*[1], include requirements for recognizing and measuring the impairment of financial assets, such as receivables or loans where collectability has deteriorated because of the negative financial environment.
- Additional information related to Sovereign Debt Restructurings is available in the Q&A: Accounting for Sovereign Debt Restructurings Under IPSAS.

Q6. ***In addition to guidance on specific types of COVID-19 related interventions discussed in Q2–Q5, which IPSAS are likely to be most relevant considering the accounting treatment of COVID-19-retaled interventions in general purpose financial statements?***

The precise answer depends on the impact of COVID-19 and the specific government interventions in your jurisdiction. However, the following standards are likely to be key in providing information on the impact of COVID-19 and in accounting for the effects of related government programs:

- IPSAS 1, *Presentation of Financial Statements,* may impact the key disclosures of the entity. For example, estimation uncertainty is likely to increase given the uncertainty in amount and timing associated with the financial interventions related to COVID-19. In addition, IPSAS 1 includes guidance for evaluating whether an entity remains a going concern which may require assessment should liquidity deteriorate.
- IPSAS 14, *Events After the Reporting Date,* provides guidance on how events that occur after the reporting date, but before the date the financial statements are authorized for issue, should be treated in the financial statements. This will be relevant when interventions have been launched after the reporting date. IPSAS 14 distinguishes adjusting events, which require changes to the face of the financial statements, and non-adjusting events that require disclosures with quantifications of estimates wherever possible.
- IPSAS 16, *Investment Property*, is applied to determine the value of property held to earn rentals or capital appreciation, which may have deteriorated in value as a result of the uncertainty surrounding COVID-19.
- IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, may be applicable to assets which have been closed or made idle due to measures such as physical distancing.
- To assess the impact of COVID-19 and whether the related interventions are material, additional information is available in the Q&A: *The Application of the Concept of Materiality to the Preparation of Financial Statements.*

[1] IPSAS 41, *Financial Instruments* is applicable from Jan 1, 2022 with early adoption encouraged.

Q7. ***What guidance exists that could be helpful related to broader reporting than just the financial statements?***

As a result of COVID-19, the service delivery objectives of governments and other public sector entities will have changed, as resources are mobilized to mitigate the pandemic's effects on individuals and households. New programs are likely to be created and existing service delivery mechanisms reconfigured. Recommended Practice Guideline (RPG) 3, *Reporting Service* Perfor*mance Information*[2]*,* provides a principles-based framework for reporting service objectives and the extent to which those service objectives have been achieved. RPG 3 discusses circumstances where service delivery objectives are changed during the reporting period. RPG 3 allows entities to tailor the format of reporting and the selection of performance indicators to their circumstances.

COVID-19 will inevitably have a major impact on an entity's operations, RPG 2, *Financial Statement Discussion and Analysis,* provides guidance which can illuminate how the pandemic has affected an entity's financial position, financial performance and cash flows. The unprecedented effects of COVID-19 have created risks and uncertainties for the finances of entities which are still being evaluated. The Financial Statement Discussion and Analysis can be used to provide additional narrative to that included in the financial statements, to elaborate on these risks and uncertainties, how they are being managed, as well as how they have changed between reporting periods.

Q8. ***What guidance exists to make the overall longer-term impact of COVID-19 on government finances fully transparent?***

Globally, governments have launched a range of policy initiatives to protect individuals, households and businesses from the worst financial effects of the pandemic. The financial consequences of these far-reaching measures will be felt for many years. While the financial statements are the cornerstone of sound financial reporting, they cannot provide all the information that citizens need to evaluate the financial condition of governments and other public sector entities. It is essential that, in order to complement the financial statements, entities provide long-term fiscal sustainability information using projections of future outflows and inflows based on current policy assumptions over pre-determined time horizons. RPG 1*, Reporting on the Long-Term Sustainability of an Entity's Finances,* provides guidance on how such projections can be compiled and the assumptions underpinning them disclosed.

Q9. ***Are there specific IPSAS requirements for loans provided at non-market terms that are currently being issued to limit the impact of COVID-19?***

IPSAS 29 and IPSAS 41 contain public sector specific application guidance on concessionary loans, which are loans granted at non-market terms. Such loans are already being made by governments to counteract the negative economic impacts of COVID-19 and they are likely to become more widespread.

A loan is deemed to be concessionary when the transaction price, based on the contractual terms, is not equivalent to the fair value of the loan. Concessionary loans are recognized at fair value, with the difference between the transaction price and fair value accounted for in accordance with

[2] RPGs provide guidance on financial reporting outside the core financial statements.

IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. The loan is subsequently measured at amortized cost using the effective interest method.

Application Guidance in IPSAS 41 distinguishes concessionary loans from waivers of debt. This is important because it impacts whether the non-market terms of the agreement are considered as part of the initial measurement of the concessionary loan, as part of the subsequent measurement or derecognition of the existing loan. Concessionary loans from the outset are intended to provide resources at non-market rates. Waivers of debt result from modifications to existing loan agreements initially granted at market terms.

Q10. *Question 5 indicates the impairment requirements are included in the financial instrument suite of standards. When will impairments on existing financial assets be recognized and how significant will losses be?*

The answer depends on whether you are applying IPSAS 29, or the recently issued IPSAS 41. Both IPSAS include robust impairment requirements. However, the requirements differ.

IPSAS 29 applies an incurred loss model. An entity should only recognize impairments when there is objective evidence indicating a loss event has occurred, even if a loss has been likely for some time. Loss events may include:

a) Significant financial difficulty of the issuer or obligor;
b) A breach of contract;
c) The lender grants a concession;
d) It becomes probable the borrower will enter bankruptcy or other financial reorganization;
e) The disappearance of an active market for that financial asset because of financial difficulties; or
f) Observable data indicating there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

Responding to the 2008 global financial crisis, IPSAS 41 applies an expected loss model. Applying this forward-looking model requires an entity to always recognize expected impairments. Unlike the incurred loss model, there is no event that triggers the recognition a credit loss.

Regardless of the standard applied, given the economic severity associated with COVID-19, entities will need to review their portfolio of financial assets and assess whether an impairment is necessary.

Q11. *Are there any differences between IPSAS and International Financial Reporting Standards (IFRS) that should be considered when determining the accounting treatments of COVID-19 related interventions?*

In general no, as many IPSAS draw upon existing IFRS where these are relevant and are developed using IPSASB's *Process for Reviewing and Modifying IASB Documents*[3]. However, the IPSAS suite of standards also includes wholly public sector-specific guidance on transactions, including the impairment of non-cash-generating assets, social benefits and collective and individual services. These topics are briefly discussed in Questions 2, 3, and 6 above. In addition, as discussed in Question 4, ED 71 includes public sector specific guidance related to accounting for transfer revenue

[3] https://www.ipsasb.org/publications/process-reviewing-and-modifying-iasb-documents

which is significantly different from the treatment under IAS 20. Question 9 also provides information on accounting for concessionary loans under IPSAS.

Looking Forward

As governments continue to respond to COVID-19 and implement new measures to mitigate its impact on their citizens, additional current and long-term financial reporting implications may arise. The IPSASB staff will continue to monitor the situation and update this document as necessary.

Key Contact

Ross Smith, IPSASB Program and Technical Director (rosssmith@ipsasb.org)

Published by: IFAC International Federation of Accountants®