Discounting of receivables
Rome TFAS - October 2017
Agenda

- Contribution receivables – recognition and measurement
- Survey results
- Discussion:
  - Applicability of effective interest rate method to voluntary contributions receivable
  - Discount rates used
Recognition and measurement

IPSAS 29.45 “When a financial asset is recognized initially, an entity shall measure its fair value plus [...] transaction costs”

29.48 a) “Loans and Receivables as defined in paragraph 10, which shall be measured at amortized costs using the effective interest method”
Recognition and measurement

“The effective interest method is a method of calculating costs of a financial asset [...] and of allocating the interest revenue or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the instrument”
Recognition and measurement

“When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument [...] but shall not consider future credit losses. The calculation includes all fees and points paid and received between parties to the contract are an integral part of the effective interest rate”
Survey results

- Responses received from 21 organizations
- 18 out of the 21 have non-current receivables
- 4 entities (UNHCR, ICAO, ILO and UNESCO) discount the receivables; UNHCR will not do so from 2017 based on materiality echoing comments from other agencies not currently discounting such receivables
Discussion

• Is discounting/effective interest rate method relevant?
• Discount rate?
• Materiality considerations?
• UNBoA view?
Thank You