

Agenda Item 4: Revenue & Non-Exchange Expenses

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IPSASB Meeting

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Objective of Session

- Note changes to Chapters 1 – 3
- Review Chapters 4 – 7
- Review Illustrative Examples
- Approval of Consultation Paper?

Materials Presented

- 4.1 Project Management including:
 - 4.1.1 Instructions up to December 2016 Meeting
 - 4.1.2 Decisions up to December 2016 Meeting
 - 4.1.3 Roadmap
- 4.2 Modifications to Structure and Content of Consultation Paper
- 4.3 Draft Consultation Paper (including Illustrative Examples)

Modifications to Chapters 1 – 3

- Inclusion of tripartite diagram on page 11
- Addition of IPSAS 23 flowchart to Chapter 2
- Restructure of CP  consequential to Chapters 1 – 3
- ‘Resource beneficiary’ changed to ‘beneficiary’
- ‘Funding’ changed to ‘consideration’ where appropriate

Modifications to Chapters 1 – 3 cont.

Fatal flaws arising from changes to Chapters 1 – 3?

Changes to Chapters 4 – 7

- Reversion to IFRS 15 wording of ‘distinct’ goods and services from ‘specific and identifiable’
- Chapter 4: Revised IPSAS 23 approach precedes PSPOA
 - Advantages and Disadvantages of approaches in tabular form
- Chapter 5: New chapter re IPSAS 23 Implementation Issues
- Chapter 6: Non-Exchange Expenses
 - Advantages and Disadvantages of for Non-exchange Expenses in tabular form
- Chapter 7: Measurement

Chapter 4: Approaches for Category B Revenue Transactions

- Retain IPSAS 23 in current form
- Revise IPSAS 23 to address time requirements
 - Reclassifying time requirements as conditions not conceptually feasible (Not an option)
 - Recognize time requirements as other obligations (Option 1)
 - Enhanced disclosures (Option 2)
- Public Sector Performance Obligation Approach

Chapter 4: Retain IPSAS 23 in current form – page 36

Advantages	Disadvantages
<ul style="list-style-type: none">• Already applied therefore users/preparers are familiar with approach	<ul style="list-style-type: none">• Exchange/non-Exchange determination still required
	<ul style="list-style-type: none">• Exchange/non-Exchange distinction is of limited use to users

Chapter 4: Revised IPSAS 23 – page 37

Advantages	Disadvantages
<i>Option 1 – Time Requirement as Other Resources and Other Obligations</i>	
<ul style="list-style-type: none"> • May provide more useful information 	<ul style="list-style-type: none"> • Exchange/non-Exchange determination still required
<ul style="list-style-type: none"> • May have lower implementation costs than PSPOA 	<ul style="list-style-type: none"> • Exchange/non-Exchange distinction is of limited use to users
<i>Option 2 – Enhanced Disclosures</i>	
<ul style="list-style-type: none"> • May have lower implementation costs than PSPOA 	<ul style="list-style-type: none"> • Exchange/non-Exchange determination still required
	<ul style="list-style-type: none"> • Exchange/non-Exchange distinction is of limited use to users

Chapter 4: PSPOA – page 37

Advantages	Disadvantages
<ul style="list-style-type: none">• Removes requirement for exchange/non-exchange determination	<ul style="list-style-type: none">• Requires the identification of performance obligations
<ul style="list-style-type: none">• Concept of performance obligations already inherent in IPSAS 23	<ul style="list-style-type: none">• May not completely resolve timing issues
<ul style="list-style-type: none">• Could address timing requirement issues	<ul style="list-style-type: none">• Based on IFRS 15 which is unproven
<ul style="list-style-type: none">• Could lead to improved public sector financial management	<ul style="list-style-type: none">• May have higher implantation costs than IPSAS 23 based approaches
	<ul style="list-style-type: none">• Based on an IFRS developed for for-profit entities

Chapter 4: IPSASB Matter for Consideration – page 38

- What is the IPSASB's preliminary view on support of the Public Sector Performance Obligation Approach or retention of the Exchange/Non-Exchange approach for dealing with Category B Transactions?

Chapter 4: Specific Matters for Comment

- SMC 1 (following paragraph 4.54)

For Category B revenue transactions do you favor:

- (a) Retaining IPSAS 23 in its current form;
- (b) Revising IPSAS 23 to address time requirements; or
- (c) Adopting the Public Sector Performance Obligation Approach.

Please explain your reasons.

Chapter 4: Specific Matters for Comment

- SMC 2 (following paragraph 4.54)

If in SMC 1 you favor Option 2 Revising IPSAS 23 to address time requirements, do you favor the use of:

- (a) Option 1 – other resources and other obligations to indicate to users that the transferor intends that the recipient uses the resources in one or more future reporting periods; or
- (b) Option 2 – One or more presentational mechanisms to provide information to users on transactions with time requirements.

Please explain your reasons.

Chapter 4: Specific Matters for Comment

- SMC 3 (following paragraph 4.54)

If in SMC 1 you favor Option (c) Adopting the Public Sector Performance Obligation Approach, do you agree with the broadening of the Five-Step Performance Obligation Approach in IFRS 15 to address Category B Revenue Transactions.

If you disagree please identify areas of disagreement and explain them.

Chapter 5: IPSAS 23 Implementation Issues

- Capital Grants
 - Revenue recognition – lumpy, never?
 - No transfer of goods or services
 - No transfer of control
- Services In-Kind
 - Insufficient control
 - Measurement

Chapter 5: Specific Matters for Comment

- SMC 4 (following paragraph 5.4)
 - (a) Has the IPSAS identified the main issues with capital grants?
 - (b) How do you think the IPSASB should modify requirements related to capital grants?

If you think that there are other issues with capital grants please identify them.

Chapter 5: Specific Matters for Comment

- SMC 5 (following paragraph 5.8)

Do you consider that the IPSASB should:

- (a) Modify requirements to require services in-kind that meet the asset definition and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in general purpose financial reports; or
- (b) Retain the existing requirements for services in-kind, which permits, but does not require recognition of services in-kind; or
- (c) An alternative approach.

Please explain your reasons. If you favor an alternative approach please identify that approach and explain it.

Chapter 6: Non-Exchange Expenses Approaches

- Obligating Event Approach
- Public Sector Performance Obligation Approach
- IPSAS 23 Reverse Approach

Chapter 6: Preliminary Views

Preliminary View 3 (following paragraph 6.14)

The IPSASB is of the view that under the Obligating Event Approach collective goods and services do not give rise to obligating events and therefore expenses or liabilities do not arise prior to the delivery of those services to beneficiaries.

Do you agree with the IPSASB's Preliminary View 3?

If not, please give your reasons.

Chapter 6: Obligating Event Approach - page 47

Advantages	Disadvantages
<ul style="list-style-type: none">Adopts same approach as proposed in the IPSASB's Social Benefits project	<ul style="list-style-type: none">Adopts a framework designed for the identification of provisions, rather than a specific liability
<ul style="list-style-type: none">Utilizes IPSAS 19 as a base which was developed to determine when liabilities arise	<ul style="list-style-type: none">Adopts a framework not designed for non-exchange expenses
	<ul style="list-style-type: none">IPSAS 19 definitions and approaches are not consistent with Conceptual Framework
	<ul style="list-style-type: none">Less likely recognition of revenue and expenses will coincide
	<ul style="list-style-type: none">Modifying IPSAS 19 would reduce alignment with IAS 37

Chapter 6: PSPOA - page 48

Advantages	Disadvantages
<ul style="list-style-type: none"> Exchange/non-exchange distinction is not required 	<ul style="list-style-type: none"> Uses a model developed for revenue
<ul style="list-style-type: none"> May lead to consistency of accounting approach between resource providers and resource recipients 	<ul style="list-style-type: none"> Requires the identification of performance obligations
<ul style="list-style-type: none"> May lead to recognition of revenue and expenses coinciding 	<ul style="list-style-type: none"> Based on an IFRS developed for for-profit entities
<ul style="list-style-type: none"> May lead to improvements in public sector financial management 	<ul style="list-style-type: none"> May leave a literature gap for non-exchange transactions with no performance obligations
	<ul style="list-style-type: none"> Can be difficult to determine stand-alone prices
	<ul style="list-style-type: none"> Relies on robust information flow between resource provider and resource recipient
	<ul style="list-style-type: none"> May lead to an inconsistent approach to that being developed for Social Benefits

Chapter 6: Reverse IPSAS 23 Approach - page 48

Advantages	Disadvantages
<ul style="list-style-type: none">• Uses an approach that is more mature than a PSPOA and has already been successfully applied to public sector transactions	<ul style="list-style-type: none">• Uses a model developed for revenue rather than expenses
<ul style="list-style-type: none">• May lead to consistent accounting between resource provider and resource recipient	<ul style="list-style-type: none">• Requires an exchange/non-exchange determination
<ul style="list-style-type: none">• Can be applied to transactions that do not have performance obligations	<ul style="list-style-type: none">• Requires judgement to determine if a stipulation is a condition or a restriction – therefore may lead to asymmetry between resource providers and resource recipients
	<ul style="list-style-type: none">• May have implementation issues e.g. time requirements, multi year grants

Chapter 6: Preliminary Views

Preliminary View 4 (following paragraph 6.15)

The IPSASB is of the view that under the Obligating Event Approach other transfers in kind do not give rise to obligating events and therefore liabilities or expenses do not arise prior to the delivery of services to beneficiaries.

Do you agree with the IPSASB's Preliminary View 4? If not, please give your reasons.

Chapter 6: Specific Matters for Comment

- SMC 6 (following paragraph 6.30)

Which of the three models discussed in this chapter do you support:

- (a) Obligating Event Approach
- (b) The Public Sector Performance Obligation Approach; or
- (c) The IPSAS 23 Reverse Approach.

Please explain the reasons for your views. If you do not support any of the three approaches please provide details of an alternative approach that you favor.

Chapter 6: IPSASB Matter for Consideration – page 48

- What is the IPSASB's Preliminary View?

Does the IPSASB support?

- Obligating Event Approach
- PSPOA
- Reverse IPSAS 23 Approach

Chapter 7: Measurement – Non-contractual Receivables

- Initial Measurement of non-contractual receivables:
 - Best estimate of the discounted cash flows
 - Face Value of the transaction with uncollectable amount recognized as an impairment.

Chapter 7: Specific Matters for Comment

- SMC 7 (following paragraph 7.18)

Do you agree with option:

- (a) Best estimate of the discounted cash flows; or
- (b) Face value of the transaction(s) with the amount expected to be uncollectible recognized as an impairment – for the initial recognition of non-contractual receivables?

Please give your reasons.

Chapter 7: IPSASB Matter for Consideration – page 53

- Does the IPSASB wish to provide Preliminary View?
If so which approach does the IPSASB favor?

Chapter 7: Measurement – Subsequent Measurement

- Subsequent Measurement of non-contractual receivables
 - Approach 1: Fair Value or Market Value Approach
 - Approach 2: Amortized Cost Approach; and
 - Approach 3: Cost Approach

Chapter 7: Specific Matters for Comment

- SMC 8 (following paragraph 7.34)

Which of the three approaches identified in this chapter for the subsequent measurement of non-contractual receivables do you support:

- (a) Fair Value or Market Value approach;
- (b) Amortized Cost Approach; or
- (c) Cost Approach?

If you favor an alternative approach please identify that approach and explain it.

Please give your reasons.

Chapter 7: Measurement – Non-contractual Payables

- Three approaches for subsequent measurement
 - Approach 1 – Best Estimate for Settlement Approach
 - Approach 2 – Amortized Cost Approach
 - Approach 3 – Hybrid Approach

Chapter 7: Specific Matters for Comment

- SMC 9 (following paragraph 7.43)

Which of the three approaches identified in this chapter for the subsequent measurement of non-contractual payables do you support:

- (a) Best Estimate for Settlement Approach;
- (b) Amortized Cost Approach; or
- (c) Hybrid Approach.

If you favor an alternative approach please identify that approach and explain it.

Please give your reasons.

Appendix: Illustrative Examples

- Uncomplicated examples to illustrate the different approaches for both revenue and non-exchange expenses
 - One year specific grant
 - Capital grants
 - Multi-year research grant
 - General (non-specific) grant
- Comments re Illustrative Examples?

Page by page review

Comments?

Approval?