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17 November 2017

International Public Sector Accounting Standards Board
Via IPSASB website: submit a comment

Tenā koutou

**BROADCASTING COMMISSION (NZ ON AIR) SUBMISSION:
IPSASB Consultation Paper Accounting for Revenue and Non-Exchange Expenses**

The Broadcasting Commission (NZ On Air) is pleased to submit its comments on the International Public Sector Accounting Standards Board's (IPSASB's) Consultation Paper: Accounting for Revenue and Non-Exchange Expenses.

The particular focus of this submission is on the proposed accounting treatment for non-exchange expenses. We are pleased to see this area, previously not explicitly covered in the Public Sector Accounting Standards, clarified. We have some concerns about whether, under the proposed treatment, some public sector financial statements, including NZ On Air's, will present a faithful representation of the effects of transactions, other events and conditions that achieve a fair and meaningful presentation for the users.

We are broadly in agreement with the Public Sector Performance Obligation Approach (PSPOA) proposed in the Consultation Paper. The main focus of this submission is on the definition and application of "performance obligation" with regard to the point of recognising an expense, the need for guidance which reflects the nature of the underlying arrangements and normal practice rather than taking arrangements and contracts at face value, and achieving an approach which provides meaningful information for users.

In preparing this submission, we have consulted with Te Māngai Pāho and the New Zealand Film Commission. We share common concerns about the continuing ability to present financial statements which are meaningful, useful to our users and reflect the underlying reality of our funding expenditure. Many of our interested stakeholders are the same, and comparability both between years and between entities is important. Our financial statements only provide a true reflection of funding expenditure and the use of resources when the expense is recognised on approval rather than based on administrative staging of payments over time, which if taken as the recognition point for the expense, artificially distorts the underlying financial performance and position.

Background

The Broadcasting Commission (NZ On Air) is an autonomous Crown entity under the Crown Entities Act 2004. Our primary job, defined by the Broadcasting Act 1989, is to "reflect and develop New Zealand

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identity and culture". We do this by funding different types of New Zealand media content for mainstream and specially targeted audiences to enjoy.

We are driven by public media principles, which include enriching the New Zealand cultural experience, improving diversity of media content in many forms, ensuring content is accessible, strengthening community life, and promoting informed debate.

We achieve this through contestable funding schemes, resulting in investment (funding) of over \$127 million each year in diverse content and services for audiences. This is a unique model in the world and gives great flexibility to connect audiences with content, no matter where and how they want to enjoy it.

NZ On Air's main revenue source is Crown revenue (98% of total revenue) through the Arts, Culture and Heritage annual appropriation "Public Broadcasting Services". This is supplemented by a small amount of other revenue, including interest on term deposits and NZ On Air's share of revenue from sales of funded programmes.

NZ On Air's main expense is the funding approved each year (over 97% of expenditure). It is non-exchange expenditure as the funded content is not delivered to NZ On Air but rather to the platform for airing, NZ On Air has no input or editorial rights once funding has been approved, and NZ On Air does not own the funded content.

We report annually on our financial and non-financial achievements. The readers of our annual report include our Board of Directors, Parliament, industry commentators (including journalists), entities receiving or hoping to receive funding, and public media researchers, both in New Zealand and overseas.

NZ On Air's primary objective is to provide services to the New Zealand public and does not operate to make a financial return. NZ On Air has therefore designated itself as a public benefit entity (PBE) and reports under Tier 1 of the PBE accounting standards.

We account for funding expenditure in the statement of comprehensive revenue and expense when the Board has approved the funding, sometimes subject to certain conditions to be cleared before formal contracting. This results in the end of year statements broadly reflecting the level of funding approved in the year compared with the Government appropriation. This information is supported by detailed funding schedules of the projects to which funding has been awarded during the year.

NZ On Air's focus is on presenting financial statements compliant with applicable accounting standards and which meet the needs of our users. Key to achieving this is reflecting funding decisions in the financial statements in a way that can be readily understood by and is meaningful to the users.

Meeting the needs of our users

NZ On Air has a well-established accounting policy for funding expenditure. An extract from our accounting policies is attached in Appendix One.

The resulting financial statements provide information which allows our users to make informed assessments and evaluate how NZ On Air has used its resources. User focus is mainly on the statement of comprehensive revenue and expense, in particular the level of funding approved in the reporting period compared with the level of Crown revenue received. Users give consideration to whether NZ On Air is maintaining levels of funding, how these compare with the annual appropriation (Crown funding) received, how these compare with the budget set by the Board in the annual Statement of Performance

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Expectations, published before the start of each financial year, and how these compare with previous years.

In setting and monitoring the annual budget, the Board's focus is likewise on the amount of funding approved compared with the budget set at the start of the year, the remaining budget available for funding and how the funding approved to date achieves NZ On Air's public service objectives.

Equity levels are also of interest to the users. As a Crown-funded organisation not operating to make a financial return and with no borrowings, NZ On Air has no need to maintain significant levels of reserves. The annual budget is usually based on a close-to break even position in order to make maximum possible funding available to applicants to achieve our objectives.

Accounting considerations

To date there has been no clear accounting standard on non-exchange expenses and a lack of clarity about defining and interpreting performance obligations. We note that the Consultation Paper takes a relatively prescriptive approach to what constitutes a performance obligation. However, this does not allow for an entity to reflect the underlying nature of its contracts and transactions, the nature and purpose of the funding, and established practice. Nor does it consider the purpose of the financial statements in the public sector in providing information to the users which is meaningful. Interpreting performance obligations therefore cannot be considered uniform or taken at face value.

NZ On Air's funding expenditure is non-exchange and is recognised as expenditure when:

- (a) The funding has been approved by the Board;
- (b) The funding recipient has been advised;
- (c) There are no substantive contractual conditions for the funding recipients to fulfil; and
- (d) It is probable (more likely than not) that the funded proposal will be completed.

The main substantive contractual condition that means a funding commitment cannot be recorded as expenditure is where the Board approval is subject to confirmation of third party funding, and that funding is not in place.

The underlying contract between NZ On Air and the funding recipient generally includes staged payments which are not tied to specified time periods. These are for administrative purposes to manage the cash flows to funding recipients. NZ On Air does not consider these to be substantive conditions in terms of our accounting policy and therefore they are not considered to be performance obligations. The performance obligation is at the point funding has been approved and substantive conditions (of the nature noted above) have been cleared. At this point both the expense and liability are recognised.

Once funding is approved, applicants have a valid expectation that they will receive the approved funding and work commences on the funded project. As in excess of 99% of funded projects are completed, we expect that payment of the approved funding cannot be avoided.

Once approved with substantive conditions cleared (if any), NZ On Air considers that the resources required for the approved funding have been allocated and are no longer available to direct or allocate for any other purpose. In addition, the approved funding contributes to fulfilling our stated objective against the appropriation received for that financial year. Hence the expense should also be recognised.

The effect of our accounting policy and the recognition point for the funding expense is that the statement of comprehensive revenue and expense generally reflects funding approved in the reporting period. Users of the financial statements can see the extent to which NZ On Air has used/allocated the funds it has available for applicants in the period and to achieve its objectives.

In the current environment, applications for available funds are significantly oversubscribed, with a high level of quality applications being declined. Questions are (rightly) raised by applicants, Parliament and the media when available funding has not been, or appears not to have been, fully utilised.

Our aim is to achieve compliant financial statements which present useful and informative information to our readers, and which is also consistent and comparable with previous periods and similar entities in our sector. It is neither meaningful nor useful to report based on when payment stage claims are made as the resources allocated are already no longer available to NZ On Air for any other purpose.

Recognising the expense taking on a strict interpretation of performance obligations based on contractual payment stages would require extensive explanations and reconciliations in the financial statements to explain the underlying position of interest to the user. As well as being confusing to users, it implies a level of obfuscation in our reporting.

A worked example is set out below:

Funding of \$4.5m is approved by the Board in March. With no conditions to fulfil before the project can proceed to contract, the entries would be:

Scenario One: Current accounting policy and interpretation of performance obligations

On approval of funding by the Board:

Dr Funding expense	\$4.5m	
Cr Funding liability		\$4.5m

One payment of \$950,000 is made before year end:

Dr Funding liability	\$950,000	
Cr Bank		\$950,000

The financial statements show an expense of \$4.5m and a funding liability of \$3.55m at balance date.

Users would see that \$4.5m has been approved against the Crown revenue for the year.

Scenario Two: Applying a strict interpretation of performance obligations

On approval of funding by the Board

Dr Funding asset	\$4.5m	
Cr Funding liability		\$4.5m

As payments are made (one payment of \$950,000 is made before year end):

Dr Funding expense	\$950,000	
Cr Funding Asset		\$950,000
Dr Funding Liability	\$950,000	
Cr Bank		\$950,000

The financial statements show an expense of \$950,000, a funding liability of \$3.55m and a funding asset of \$3.55m.

Users would see that \$950,000 has been approved against the Crown revenue for the year and \$3.55m appears to be unallocated, potentially available for funding other projects.

Scenario Two does not present useful information to the users and is potentially misleading. Whilst disclosures would be added to explain the underlying situation, many of our readers do not look beyond the face of the financial statements to notes and explanatory information.

Conclusion

The primary objective of most public sector entities is to deliver services to the public. As a Crown entity, this is NZ On Air's goal, achieved through its funding activities. For decision-making and accountability purposes, users need information on how the resources provided by government have been applied as well as information on the resources available for future use and changes in the entity's ability to provide services (i.e. funding) compared with the previous period and budget. This information is provided through the annual statements of financial position, financial performance and cash flows, together with non-financial performance information.

The focus of users of core public sector financial statements is different to commercial entities. In particular it is on whether the resources provided by the government of the day have been used for their stated purpose. Enabling presentation of this information in a meaningful and informative way should be the focus of the underlying accounting policies. To that end we request that careful consideration be given by the IPSASB to the interpretation of performance obligations and the resulting impact on fair presentation of the underlying transaction.

Any queries about this submission should be directed to our Head of Corporate Services, Clare Helm (clare@nzonair.govt.nz).

Yours sincerely,



Caren Rangi

Chair – Audit and Risk Committee

Appendices

Appendix One: Accounting policies extract (30 June 2017 Annual Report)

Appendix Two: Financial information

- 2.1 Summary of contract expenditure in 2016/17
- 2.2 Statement of comprehensive revenue and expense, year ended 30 June 2017
- 2.3 Statement of financial position as at 30 June 2017

APPENDIX ONE: Accounting policies extract (30 June 2017 Annual Report)**Funding expenditure**

Funding expenditure is discretionary funding where NZ On Air has no obligations to award funding on receipt of the funding application. It is recognised as expenditure when:

- (a) The funding has been approved by the Board;
- (b) The funding recipient has been advised;
- (c) There are no substantive contractual conditions for the funding recipient to fulfil; and
- (d) It is probable (more likely than not) that the funded proposal will be completed.

Critical judgements in applying this accounting policy

Although from time to time an approved project with no substantive conditions to fulfil does not go ahead, such projects are rare. Based on experience we judge it is probable that all approved commitments at 30 June without substantive contractual conditions to fulfil will be completed.

The main substantive condition that means a funding commitment cannot be recorded as expenditure is where the Board approval is subject to further confirmation of third party funding and that funding is not in place at balance date.

Funding liabilities

We recognise a liability for funding expenditure when the following conditions have been met:

- (a) The expenditure has been formally approved
- (b) The funding recipient has been advised
- (c) There are no substantive contractual conditions for the funding recipient to fulfil
- (d) It is probable (more likely than not) that the funded proposal will be completed and that our obligation will crystallise.

At 30 June funding liabilities in the statement of financial position include both contracted liabilities and liabilities that are uncontracted but have no substantive contractual conditions unfulfilled. The amount recorded for the uncontracted liabilities is the amount approved by the Board.

At 30 June therefore, the funding liabilities in the statement of financial position include both contracted liabilities and liabilities that are uncontracted, but have no substantive contractual conditions unfulfilled. The amount recorded for the uncontracted liabilities is the amount approved by the Board.

APPENDIX TWO: Financial information**2.1 Summary of contract expenditure in 2016/17**

Funding type and Characteristics	\$	%	Liability at 30/6/17 \$	Liability at 30/6/16 \$
<u>National TV</u> Primarily TV productions and development funding. Includes financial year (FY) funding for TV captioning of \$2.8m. No liability for this at 30 June.	79,152	62	26,233	30,400
<u>Regional TV</u> Largely FY funding. \$295,000 of the 30 June liability related to contracts specifically covering FY 2014/15.	1,200	1	326	261
<u>Digital Media</u> Mix of project and funding FY e.g. NZ On Screen \$1.25m. Liability relates to projects.	3,982	3	1,784	1,343
<u>Public Radio</u> All Radio NZ funding, relates to financial year. No remaining liability at year end.	32,516	26	0	0
<u>Special Interest Radio</u> Mostly Access Radio of approx \$5.6m which funds the financial year. No liability for this at year end.	6,281	5	258	406
<u>Music and other content</u> Mix of music recordings and videos and other music. Includes funding on a financial year basis of \$469k for The Audience website, liability at 30 June \$65k; and alternative radio \$920k, liability \$187k.	3,946	3	2,468	2,334
<u>Development and support</u> Funding for skills development, sponsorship and events	409	0	167	183
Total	127,486	100%	31,236	34,927

2.2 Statement of comprehensive revenue and expense for the year ended 30 June 2017¹

	Actual	Budget	Actual
	2017	2017	2016
	\$000	\$000	\$000
Revenue			
Crown revenue	129,426	128,726	128,726
Other revenue	2,514	2,230	2,542
Total revenue	131,940	130,956	131,268
Operating expenditure			
Administration services	3,348	3,715	3,420
Total operating expenditure	3,348	3,715	3,420
Funding expenditure			
Screen content			
National television	79,152	79,300	81,477
Regional media	1,200	1,380	634
Digital-only media	3,982	3,860	3,848
Sound content			
Public radio	32,516	31,816	31,816
Special interest radio	6,281	6,645	6,458
Music and other content	3,946	4,000	3,779
Development & support funding	409	400	397
Total funding expenditure	127,486	127,401	128,409
Total expenditure	130,834	131,116	131,829
Net surplus/(deficit) for the year	1,106	(160)	(561)
Other comprehensive revenue and expense	-	-	-
Total comprehensive revenue and expense	1,106	(160)	(561)

Also noted in the annual report:

“We ended the year with a surplus, due to approved funding of \$2.6m being carried into the next financial year for projects where funding conditions were not yet met at 30 June. If all projects had met funding conditions, we would have ended the year with a deficit of \$1.5m and equity of \$0.5m.”

This relates to conditions for funding to proceed not being met where third party funding was not in place at balance date.

¹ A full copy of the 2016/17 annual report can be accessed on line at www.nzonair.govt.nz

2.3 Statement of financial position as at 30 June 2017

	Actual	Budget	Actual
	2017	2017	2016
	\$000	\$000	\$000
Current assets			
Cash and cash equivalents	5,188	3,000	8,655
Investments	27,000	20,000	28,000
Debtors and other receivables - interest	195	150	178
Debtors and other receivables - other	1,843	150	172
Total current assets	34,226	23,300	37,005
Non-current assets			
Property, plant and equipment	162	350	240
Intangible assets	185	-	12
Total non-current assets	347	350	252
Total assets	34,573	23,650	37,257
Current liabilities			
Trade and other payables	194	300	291
Employee entitlements	121	150	123
Funding liabilities	31,236	23,153	34,927
Total current liabilities	31,551	23,603	35,341
Net assets	3,022	47	1,916
Equity			
Equity at 30 June	3,022	47	1,916
Total Equity	3,022	47	1,916

23 November 2017

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

Attention: Leah Weselowski

Dear Leah

Re: Consultation Paper August 2017: Accounting for Revenue and Non-Exchange Expenses

I am the Finance Officer for New Zealand National Committee for UNICEF Trust Board.

Please find attached my comment in relation to the consultation paper "Accounting for Revenue and Non-Exchange Expenses".

Regards



Susan Chisnall
Finance Officer
UNICEF NZ
PO Box 10459
Wellington 6143
New Zealand

Consultation Paper August 2017: Accounting for Revenue and Non-Exchange Expenses

Re paragraphs 4.28 – 4.64

I agree with Preliminary View 3, that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

New Zealand
FILM COMMISSION



Te Tumu Whakaata Taonga

Consultation Paper: Accounting for Revenue and Non-exchange Expenses

Background:

The New Zealand Film Commission (NZFC) is a Crown Entity working to grow the New Zealand film industry. Appropriate accounting treatment of the NZFC's funding commitments is fundamental to the Commission's business objectives.

The NZFC allocates the majority of its annual expenditure to feature film production. It also allocates significant sums to short film production, script development and devolved business development schemes.

It is critical that these funding decisions are reflected in the financial statements in a way that users of the statements can readily understand.

In preparing this submission, we have consulted with Te Māngai Pāho and the New Zealand On Air. We share common concerns about the continuing ability to present financial statements which are meaningful, useful to our users and reflect the underlying reality of our funding expenditure. Many of our interested stakeholders are the same, and comparability both between years and between entities is important. Our financial statements only provide a true reflection of funding expenditure and the use of resources when the expense is recognised on offer and/or acceptance rather than based on administrative staging of payments over time, which, if taken as the recognition point for the expense, artificially distorts the underlying financial performance and position.


Discussion:

Current Accounting Policies:

The NZFC's accounting policy and disclosures for funding, per the Annual Report are:

Grants:

Non-discretionary grants are those grants awarded if the grant application meets the specified criteria and are recognised as expenditure when an application is approved.



Discretionary grants are those grants where the NZFC has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the relevant NZFC committee and the approval has been communicated to the applicant.

Project commitments:

This amount represents financial commitments and advances for film development, devolved development schemes and production committed by the NZFC, but not paid out at year end.

Users of the Financial Statements



A key objective to the implementation of the PBE IPSAS suite is to provide better information for the users of financial statements.


PBE IPSAS 1 para 15 states:

“Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting should be to provide information useful for decision making, and to demonstrate the accountability of the entity for the resources entrusted to it, by:

- (a) Providing information about the sources, allocation, and uses of financial resources;*
- (b) Providing information about how the entity financed its activities and met its cash requirements;*
- (c) Providing information that is useful in evaluating the entity’s ability to finance its activities and to meet its liabilities and commitments;*
- (d) Providing information about the financial condition of the entity and changes in it; and*
- (e) Providing aggregate information useful in evaluating the entity’s performance in terms of service costs, efficiency, and accomplishments.”*

Therefore, it is essential when preparing the NZFC’s annual financial statements to ensure they are useful for the readers and key stakeholders (filmmakers, media, Ministers, MCH, MBIE and Parliament). The readers of the NZFC financial statements are most interested





in seeing how much money was committed to feature film projects during the year, and also how much money remained unallocated at the end of the year.

In order for the NZFC to provide useful information to the readers of the financial statements, the statements need to reflect the obligations created by the NZFC Board. These obligations are the offer of production funding to applicants, determined at Board meetings. These obligations need to be shown on both the profit and loss and the balance sheet to ensure that closing equity is appropriately stated.

Current Accounting Treatment

All significant feature film production funding decisions are made at Board meetings, which generally take place five times per year. Following each board meeting, a letter of conditional offer is issued to successful applicants. Simultaneously the offer is captured in our financial records.

The current accounting treatment is as follows:

- a) the full funding offer is expensed on the profit and loss, and
- b) a corresponding liability is recorded on the balance sheet.


This treatment reflects that these funds are effectively ring-fenced for a particular project, and prevents the funds from being utilised elsewhere. The same accounting treatment is applied to funding committed to short film production, script development and devolved business development schemes.

This means that at the end of each financial year, after the annual financial statements have been issued, readers are able to easily see how much money has been committed to funding film projects over the last 12 months, and importantly, how much is left over. They are also able to look at the balance sheet and see how much of the total funds committed by the Commission to film projects remains unpaid.

If management concludes at any point following the issuing of a conditional funding offer that the film project is not able to go forward into production then the funding offer is terminated and the liability and corresponding expense are reversed (“written back”). If the decision to terminate is made in a subsequent financial year to the offer, the writeback is shown as income rather than a negative expense on the profit and loss. Over the last 5 years the percentage of funds written back has averaged 17% of total offers made.

The effect of the consultation paper – a worked through example

The consultation paper sets out two options to record non- exchange expenses. Below we have assessed the impact that each option would have on our film funding process.



EXAMPLE

The NZFC board meets on the 7th December 2017. At the meeting the board considers a production funding request from a producer. The board agrees to provide production funding of \$1 million to the film project “XYZ”. Following the board meeting NZFC staff send a letter offering conditional production funding to the producer of “XYZ”. The conditional offer sets out a list of conditions that need to be met in order to “close” (i.e. contract) the film before they are able to start production. It also sets out that the conditional offer will expire in September 2018 unless the film has already closed. The producer of “XYZ” countersigns the offer letter on 20 December 2017 and sets about meeting all the NZFC conditions. This process takes several months. Eventually all the parties involved sign a non-conditional formal production financing agreement on 1 July 2018. This agreement incorporates a finance plan which shows that NZFC will pay \$1 million towards the film. An investor funding drawdown schedule is attached as an appendix to the funding agreement. This schedule lists the dates on which each instalment of the \$1 million NZFC funding is required to be paid over to the production bank account.

Option 1 – The Extended Obligating Event Approach

Does the NZFC have an obligating event? And if so when does the obligating event arise?


NZFC currently takes the view that as soon as the \$1M conditional production funding offer is communicated formally by letter to the producer applicant there is a valid expectation by that producer that they will receive \$1 million to help make the film. Therefore, the obligating event arises when the NZFC issues the letter of conditional offer, despite in many cases, the producer not having fulfilled all the conditions set out in the letter at time of issue.

Our interpretation of Option 1 is that the signing of the long-form film funding agreement by all parties would be treated as the obligating event.

At the point of recognising the obligating event, how is it recognised?

The NZFC letter of conditional offer sets out a list of conditions that must be met, before the NZFC funding is able to be released. Therefore, on the 20th of December 2017 the NZFC would recognise a \$1M asset and a \$1M liability on its balance sheet. On 1 July 2018 when the formal financing agreement is signed the NZFC would fully expense the \$1M funding commitment.

However, if milestone requirements were incorporated into this accounting standard, on 1 July 2018, the NZFC would only be able to recognise an expense to the extent that it is



reflected in the drawdown schedule. The expense would be released in line with the drawdown schedule which could potentially be across a period of more than one financial year.

NZFC Comment:

Adopting this approach would create a level of confusion within the NZFC, particularly at board level, as well as amongst our external stakeholders. The NZFC would have to effectively keep two separate sets of books, one for external reporting purposes and one for management purposes. Stakeholders would be confused as they would not be able to tell clearly how much and to what projects the NZFC had conditionally offered funding to.

Requiring milestones to be factored in would increase the ambiguity as to how much had been committed to funding films during any one year. The year-end balance sheet would likely show a misleadingly high equity position. There would be greater variation in the profit and loss account, with some years likely to report large surpluses and other years potentially showing large deficits. Overall, the annual financial statements would be of limited use to readers, with large conditional commitments of NZFC money simply not being fully or clearly reported.

For example, the profit and loss account in the NZFC Annual Report for the year ended 30 June 2016 shows feature film production funding expenditure of \$10.9 million. Of this \$10.9 million total, \$4.35 million was approved at the board meeting in mid-June 2016 and did not have a counter-signed letter of conditional offer at 30 June 2016 meaning it would not meet the expenditure recognition criteria under Option1. Additionally, \$4.3 million of funding had not been fully contracted for various reasons. Therefore, ignoring any flow-on impacts from funding offers arising in the previous year, this option would result in the NZFC profit and loss showing funding expenditure of only \$2.3 million and an equity increase of \$8.6 million. As our total reported expenditure was \$22.68 million this would be a very material change to the year-end financial statements.

Option 2 – Public Sector Performance Obligation Approach

Using the same hypothetical example above,

Step 1: Identify the binding agreement – when the producers have countersigned the NZFC letter of conditional offer a binding agreement is entered into by both parties.

Step 2: Identify the performance obligations – a film cannot be broken down into distinct segments. A film only holds value when it is delivered in its entirety. Therefore, for this reason we consider that feature film projects do not have any performance obligations.

Step 3: Determine consideration – the total consideration is \$1 million.



Step 4: Allocate the consideration – there is no performance obligations to allocate the consideration against.

Step 5: Recognise the expense – \$1 million would be recognised when the conditional offer is agreed/ signed.

NZFC Comment:

It could be argued that the investor drawdown schedule typically attached to the financing agreement sets out performance obligations. The reality is that once a feature film commences production it generally needs to maintain the pre-agreed timetable and complete delivery by the contracted date in order to come in on budget and avoid cost overruns. The NZFC must adhere to the contracted cashflow schedule and release its funds as required to allow the production to be completed on time and on budget. The NZFC has very limited ability to withhold funds, even when producer performance obligations (reporting etc.) are not being met. Any decision by the NZFC to withhold funding to a feature film in production, for whatever reason, would make the completion bond arrangement (essentially an insurance arrangement that guarantees completion of the film in certain circumstances) null and void.

Conclusion:

The NZFC accepts the need for more clarity and certainty around the accounting for non-exchange expenses. We strongly argue that the proposed new accounting standard needs to ensure that readers of the financial statements can make informed decisions about the organisation.

It is important for the NZFC as a Government funding agency to be able to issue financial statements that are a true representation of financial obligations entered into during the year and that clearly show actual available funds at the end of the year. Substance takes precedence over form.

On this basis, we recommend that the public sector performance obligation approach (Option2) be incorporated into the new accounting standard. This we believe would allow us to continue to prepare annual financial statements that are meaningful to our various external stakeholders, and would avoid unnecessary duplication of accounts internally.

Summary of contract expenditure 2015/16

Funding Type and Characteristics	\$	Liability at 30/6/16	Liability at 30/6/15
Production Finance (Recognised when approved by the Board and a conditional offer is sent to the recipient)	10,981,937	11,135,917	14,285,012
Fresh Shorts	641,083	450,500	693,915
Devolved development (boost)	327,240	1,333,900	1,618,250



23 November 2017

The International Public Sector Accounting Standards Board
www.ifac.org

Tēnā koe koutou

**TE REO WHAKAPUAKI IRIRANGI (TE MĀNGAI PĀHO) SUBMISSION:
IPSASB Consultation Paper Accounting for Revenue and Non-Exchange
Expenses**

Te Reo Whakapuaki Irirangi (operating as Te Māngai Pāho) is pleased to provide its comments on the International Public Sector Accounting Standards Board's (IPSASB's) Consultation Paper: Accounting for Revenue and Non-Exchange Expenses.

The focus of this submission is on the proposed accounting treatment for non-exchange expenses. As a result of discussions with our auditor, we have significant concerns that the application of the proposed accounting treatment for the recognition of expenditure will render our reporting to the users of our financial statements confusing and misleading.

This concern centres on the definition and application of what constitutes a "performance obligation" under the Public Sector Performance Obligation Approach (PSPOA), when used to establish the point at which to recognise an expense and the need for clarity to distinguish between an obligating event and administrative arrangements within an established contract. Taking a form over substance approach will yield accounting results which will not tell users of our financial statements what they want to know or provide what they have been accustomed to receiving.

In preparing this submission, we have consulted with NZ On Air and the New Zealand Film Commission. We share common concerns about the continuing ability to present financial statements which are meaningful, useful to our users and reflect the underlying reality of our funding expenditure. Many of our interested stakeholders are the same, and comparability both between years and between entities is important. Our financial statements only provide a true reflection of funding expenditure and the use of resources when the expense is recognised on approval rather than based on

administrative staging of payments over time, which, if taken as the recognition point for the expense, artificially distorts the underlying financial performance and position.

Background

Te Māngai Pāho is an autonomous Crown Entity established to promote Māori language and culture through making content available for the online, broadcast and music sectors. The entity is funded by Parliament through Vote Māori Affairs and is accountable for its conduct and performance to the Minister for Māori Development.

The relevant legislation governing Te Māngai Pāho's operations includes the Broadcasting Act 1989, the Crown Entities Act 2004 and Te Ture mō Te Reo Māori 2016.

The primary function of Te Māngai Pāho is to promote the Māori language and Māori culture by making funds available for broadcasting, the production of programmes to be broadcast and archiving programmes. As a secondary function Te Māngai Pāho may also make funds available for transmitting on demand, producing content for transmitting on demand and archiving content.

In the exercise of these functions Te Māngai Pāho will consult from time to time with representatives of Māori interests, broadcasters and others who, in the opinion of Te Māngai Pāho, can assist in the development of funding policies.

Te Māngai Pāho funds the national network of Māori radio stations and the production and broadcast of radio and television programmes, new media, music tracks and videos. It also funds the archiving of content.

Te Māngai Pāho has designated itself as a public benefit entity (PBE) for financial reporting purposes and does not operate to make a financial return.

Te Māngai Pāho's programme funding is non-exchange expenditure.

Te Māngai Pāho operates in a contestable funding environment and as such, funding applicants are eager to receive information on what projects were funded and for how much, as they try to determine evolving trends and benchmarks.

Relating to the User Experience

Our area of work is the funding of content that will best appeal to its intended target audience. With the growth of digital platforms for launching content, increasingly the

factors used in decision making for the allocation of funding centre on consideration of the “User Experience” or UX in the jargon.

Equally in the reporting of our activities, there should also be a focus very much on the User Experience. Consideration should be given to the sort of information that the user expects, wants and needs. Our financial statements are our accountability documents to Parliament and the New Zealand taxpayer, and are also sought by people and entities involved in the broadcasting and media sector. Te Māngai Pāho emphasises transparency and accountability as part of our values and we wish to remain to be seen as transparent and accountable in the way that information is presented to users of our financial statements.

Accounting Treatment

Contestable funding is let through a series of Request for Proposals (RFP) funding rounds during the year. Once the round closes, applications received are considered by an assessment committee which makes recommendations to the Board. Funding rounds are generally considerably oversubscribed so that there is high interest in the results of the round.

The Board has the final say on the projects that will receive funding. Successful projects receive a Letter of Offer (which may be conditional or unconditional).

Once the production company accepts the Letter of Offer (and fulfils the conditions if applicable) the accounting treatment would be to expense the full amount of the project in the Income and Expenditure Statement and raise a corresponding liability in the Statement of Financial Position.

Our view is that once the applicant accepts the Letter of Offer and meets any conditions, this is the obligating event for Te Māngai Pāho and the applicant has a valid expectation of entitlement to the full amount of the funding.

Our concern is that there could be an interpretation that the various administrative milestones attached to the contract, individually form separate obligating events, so that expenditure in this view would only be recognised incrementally.

This could create accounts that would show that Te Māngai Pāho had not allocated all the available funding in the year or, conversely, that it was operating a deficit due to the carry over of transactions from the previous year.

The impact of changes to the way in which funding might be recognised in Te Māngai Pāho’s accounts is demonstrated by the following example, using a television funding contract.

Example: TV Production Drama contract***Current Treatment***

As an example, assume that in October 2016, the Board approved an unconditional contract for a television production drama for \$2.3 million.

The entries would be:

Dr Funding Expense	\$2.3 million	
Cr Funding Liability		\$2.3 million

Before year end, payments of \$1.1 million were paid out under the contract.

Dr Funding Liability	\$1.1 million	
Cr Bank		\$1.1 million

In the annual financial statements at 30 June 2017, there would be an expense of \$2.3 million and a funding liability of \$1.2 million. Interested readers of the accounts could see the full value of the contract in the accounts and, together with all other contracts treated in a similar way, that Te Māngai Pāho had allocated all available funding in the year (which is always our aim). This is important for both the government who entrusted us with the funds for distribution and for funding applicants and broadcasters who would see that available funding had been used.

Applying a Strict Performance Obligation Definition

Applying a strict interpretation of the performance obligation definition, entries would be as follows:

On acceptance:

Dr Funding Asset	\$2.3 million	
Cr Funding Liability		\$2.3 million

Payments made before year end:

Dr Funding Expense	\$1.1 million	
Cr Funding Asset		\$1.1 million
Dr Funding Liability	\$1.1 million	
Cr Bank		\$1.1 million

The annual financial statements would show an expense of \$1.1 million, a funding asset of \$1.2 million and a funding liability of \$1.2 million. The accounts would seem to indicate that only \$1.1 million had been expensed and there remained a further \$1.2 million yet to be allocated.

Conclusion

Presenting meaningful information to the users of the financial statements should drive the choice of accounting treatment. Te Māngai Pāho contracts include milestones that have been worded in such a way to provide levers to ensure delivery but this is simply to ensure public money is wisely spent.

While Te Māngai Pāho supports the adoption of the Public Sector Performance Obligation Approach, there is a possibility that adoption of a narrow interpretation of obligating events would create unintended consequences. Without such accommodation, future financial statements for entities in our sector would become increasingly opaque and result in avoidable confusion and misinformation.

Together with similar agencies in our sector in New Zealand, Te Māngai Pāho asks the Board to give consideration for scope to broaden the guidance around the determination of an obligating event in order that we might continue to meet the needs of the users of our financial statements.

Should you have any questions regarding this submission, please contact our Manager Corporate Services, Thomas Hood (Thomas@tmp.govt.nz).

Nāku noa, nā



Larry Parr
Kaihautū-Chief Executive

APPENDIX ONE: ACCOUNTING POLICIES EXTRACT

Funding Expenditure

The allocation of funds to broadcasting projects is recognised as expenditure in the financial year the allocation is made provided that, prior to the end of the financial year, the project has received Board approval and the funding applicant has received notice of approval in writing. Expenditure therefore includes funds allocated but not paid out at year end. The funds not paid out are recorded as funding liabilities in the statement of financial liability. This liability is reduced as the applicant is paid according to the drawdown schedule specified in the production contract.

Critical judgements in applying accounting policies

Te Māngai Pāho has exercised judgement in developing its funding expenditure accounting policy above, as there is no specific accounting standard for funding expenditure.

Te Māngai Pāho is of the view that once the conditions in the policy have been met, the funding recipient has a valid expectation that funding will be paid, and that is the point at which expenditure is recognised. Any milestones included in underlying contracts are for administrative purposes only.

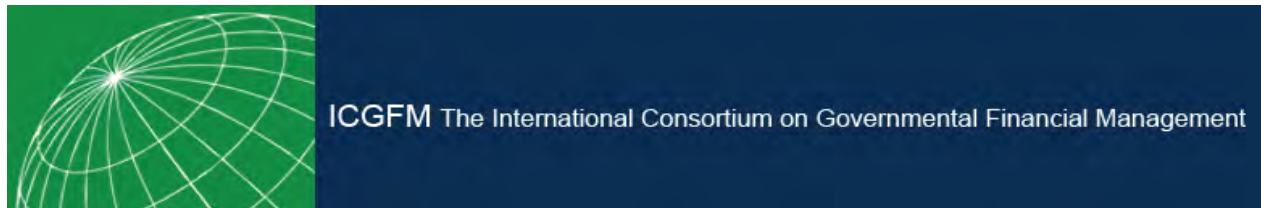
With the recent introduction of the new PBE accounting standards there has been debate on the appropriate framework to apply when accounting for such expenditure. Te Māngai Pāho is aware that the need for a clear standard or authoritative guidance on accounting for funding expenditure has been raised with the New Zealand Accounting Standards Board and will consider any developments.

Funding Liabilities

At the time projects are approved by the Board of Te Māngai Pāho and notification is made to the funding recipient, expenditure is charged against the current year's income and recorded as a liability. The liability is reduced as the funding recipient is paid according to the drawdown schedule specified in the funding contract. It is expected that the majority of these liabilities will be paid

APPENDIX TWO: SUMMARY OF CONTRACT EXPENDITURE 2016/17

Funding Type	\$m	%	Liability as at 30/6/17 \$m	Liability as at 30/6/16 \$m
Direct Funding of Māori Television	16.1 m	30%		
TV Programmes, Digital Initiatives and other	24.6 m	45%		
Television			13.9 m	13.3 m
Radio Station Operational Funding	10.5 m	19%		
Radio Programmes, Music and Videos	2.0 m	4%		
Other	1.2 m	2%		
Radio and Music			1.4 m	0.9 m
Total	\$54.4 m	100%	\$15.3 m	\$14.2 m



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November 28, 2017

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

Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultation Paper "Accounting for Revenue and Non-Exchange Expenses" issued August 2017.
2. We are supportive of the approach in the Consultation Paper. We attach our response setting out our comments and preferred options.
3. We appreciate the opportunity to comment on this Consultation Paper and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at Michael.parry@michaelparry.com or on +44 7525 763381.

Yours faithfully,

Michael Parry

ICGFM Accounting Standards Committee

Michael Parry, Chair

Andrew Wynne

Anne Owuor

Hassan Ouda

Jesse Hughes

Mark Silins

Nino Tchelishvili

Paul Waiswa

Tony Bennett

Cc: Jim Wright, President, ICGFM

International Consortium on Government Financial Management (ICGFM)

Response to Consultation Paper on Accounting for Revenue and Non-Exchange Transactions

August 2017

Preliminary View	Comments
<p>Preliminary View 1 (following paragraph 3.8)</p> <p>The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers.</p> <p>Such an IPSAS will address Category C transactions that:</p> <ul style="list-style-type: none"> (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations. <p>Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons (p. 28)</p>	<p>Agree</p> <p><i>Comments.</i></p> <p>Combining the two IPSAS is logical.</p> <p>IFRS 15 contains a number of guidelines (including legal) for accounting for exchange transactions. For example, the standard provides provisions on identifying the contract, combination of contracts, contract modification, identifying performance obligations, distinct goods and services, etc.</p> <p>The application of this approach will avoid the issue of classification of exchange revenue and expenses transactions of the kind that, for example, Ukraine encountered while implementing IPSAS 9, 11 and 23.</p>
<p>Preliminary View 2 (following paragraph 3.9)</p> <p>Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.</p> <p>Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons. (p. 28)</p>	<p>Agree</p> <p><i>Comments.</i></p> <p>In Ukraine, the problem of classification of revenues receipt and implementation of expenses for transfers to citizen was apparent.</p>

Preliminary View	Comments
<p>Specific Matter for Comment 1 (following paragraph 3.10)</p> <p>Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:</p> <ul style="list-style-type: none"> • Social contributions; and/or • Taxes with long collection periods. <p>If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed. (p. 28)</p>	<p>In Ukraine, the entity that should account for non-exchange transactions was not clear – the administering entity or the Treasury?</p> <p>In Barbados, the lack of any guidance on the treatment of capital grants (i.e. grants for the creation of capital assets) was an issue</p>
<p>Preliminary View 3 (following paragraph 4.64)</p> <p>The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.</p> <p>Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons. (p. 44)</p>	<p>Agreed</p> <p><i>Comments.</i></p> <p>The IMF GFS 2014 Para 5.10 states "<i>transactions are recorded when the underlying activities, transactions, or other events occur that create the unconditional claims to receive the taxes or other types of revenue</i>". This is consistent with the obligating event approach</p>

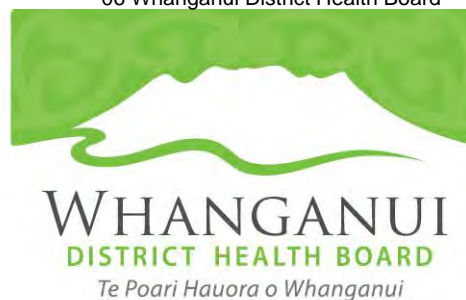
Preliminary View	Comments
<p>Specific Matter for Comment 2 (following paragraph 4.64)</p> <p>The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:</p> <p>Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);</p> <p>Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);</p> <p>Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);</p> <p>Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and</p> <p>Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).</p> <p>Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons (p. 44)</p>	<p>We consider the IFRS 15 approach equally valid for governments, though explanation and examples of its application would be very useful</p>
<p>Specific Matter for Comment 3 (following paragraph 4.64)</p> <p>If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):</p> <ul style="list-style-type: none"> a. Option (b) – Require enhanced display/disclosure; b. Option (c) – Classify time requirements as a condition; c. Option (d) – Classify transfers with time requirements as other obligations; or d. Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance. <p>Please explain your reasons. (p. 44)</p>	<p>Option (e)</p> <p>This is the only approach which is consistent with accrual principles</p>

Preliminary View	Comments
<p>Specific Matter for Comment 4 (following paragraph 4.64)</p> <p>Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?</p> <ul style="list-style-type: none"> • Yes • No <p>Please explain your reasons. (p. 44)</p>	<p>Yes</p> <p>Additional information would be needed to understand the transaction</p>
<p>Preliminary View 4 (following paragraph 5.5)</p> <p>The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.</p> <p>Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons. (p. 45)</p>	<p>Agreed</p> <p><i>Comments.</i></p> <p>At present, there is no guidance on capital grants, this is an issue</p>
<p>Specific Matter for Comment 5 (following paragraph 5.5)</p> <p>(a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them.</p> <p>(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider? Please explain your issues and proposals. (p. 46)</p>	<p><i>Main issues are identified</i></p> <p><i>Comments.</i></p> <p>Main issues encountered have been:</p> <ul style="list-style-type: none"> • Timing of recognition • Treatment of revenue from capital grants

Preliminary View	Comments
<p>Specific Matter for Comment 6 (following paragraph 5.9)</p> <p>Do you consider that the IPSASB should:</p> <p>(a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or</p> <p>(b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or</p> <p>(c) An alternative approach.</p> <p>Please explain your reasons. If you favour an alternative approach please identify that approach and explain it. (p. 47)</p>	<p>We favour an alternative approach (c): services in-kind should be recognised if the conditions in (b) apply and in addition "if obtaining the information is cost effective"</p> <p>To calculate the fiscal indicators used for analysis, these services should be excluded from revenues and expenditures. In particular, for the calculation of state final consumption as the element of GDP in the UN System of National Accounts, it is necessary to know whether, and to what extent, such flows are accounted for in the composition of income and expenditure. This is needed for diagnosing the General Government sector impact on economy.</p>
<p>Preliminary View 5 (following paragraph 6.37)</p> <p>The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient.</p> <p>These non-exchange transactions should therefore be accounted for under The Extended Obligor Event Approach.</p> <p>Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons. (p. 56)</p>	<p>Agreed</p>
<p>Preliminary View 6 (following paragraph 6.39)</p> <p>The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.</p> <p>Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons. (p. 56)</p>	<p>Agreed</p> <p>Such transactions are reflected in SNA in the same way (provision of collective services by General Government Sector). The obligations stay the same.</p>

Preliminary View	Comments
<p>Preliminary View 7 (following paragraph 6.42)</p> <p>The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the Public Sector Performance Obligation Approach (PSPOA) which is the counterpart to the IPSASB's preferred approach for revenue.</p> <p>Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons (p. 57)</p>	<p>Agreed</p>
<p>Preliminary view 8 (following paragraph 7.18)</p> <p>The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.</p> <p>Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons (p. 61)</p>	<p>Agreed</p>
<p>Preliminary View 9 (following paragraph 7.34)</p> <p>The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.</p> <p>Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons. (p. 63)</p>	<p>Agreed</p>
<p>Specific Matter for Comment 7 (following paragraph 7.46)</p> <p>For subsequent measurement of non-contractual payables do you support:</p> <p>(a) Cost of Fulfilment Approach;</p> <p>(b) Amortized Cost Approach;</p> <p>(c) Hybrid Approach; or</p> <p>(d) IPSAS 19 requirements?</p> <p>Please explain your reasons. (p. 65)</p>	<p>We support option (a),</p> <p>This is the simplest and most logical approach. It allows the identification of the amount in accordance with the approaches defined by IPSAS 19 "Provisions, contingent liabilities and contingent assets".</p>

8 December 2017



Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
United States of America

100 Heads Road, Private Bag 3003
Whanganui 4540, New Zealand

Dear John

**Request to comment on IPSASB consultation paper on
Accounting for Revenue and Non-Exchange Expenses**

Thank you for the opportunity to comment on the above consultation paper. We are commenting on this consultation paper to assist the International Public Sector Accounting Standards Board to understand the implications of accounting for revenue and non-exchange expenses in a public sector setting.

We are happy for you to publish our comments.

Whanganui District Health Board is a Crown entity under the Crown Entities Act 2004 (New Zealand) and is responsible for:

- improving, promoting and protecting the health of its community.
- promoting the integration of health services, especially primary and secondary care services.
- promoting the effective care or support of those in need of personal health services or disability support.

Our views in this submission have been formed through the practical application of relevant standards and the challenges that this creates. In expressing our opinions we have attempted to maintain a balance between maintaining integrity of the reporting framework and reflecting the reality of various revenue and expenditure streams.

Yours sincerely



Brian Walden
General Manager Corporate

Request for comments

Preliminary view 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

Yes

Preliminary view 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Yes

Specific matter for comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- a) Social contributions; and/or
- b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

No comment. There are no revenue streams of this type received or applied by Whanganui District Health Board.

Preliminary view 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach. Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

The Whanganui District Health Board does not agree with the use of the Public Sector Performance Obligation Approach.

The Whanganui District Health Board believes that there is a danger that the Performance Obligation Approach may restrict development of an outcome based approach to social sector service delivery and difficulties may arise in determining the level of obligation completed.

The Whanganui District Health Board believes that Approach 1 – Option (e) combined with Approach 1 – Option (a) is the preferable solution.

The social sector is increasingly moving towards an outcome based approach to measuring the success of funding decisions and determining value for money. To reflect this change, social sector agreements are increasingly moving towards expressing obligations in terms of outcome improvement. However, outcomes in the social sector are impacted by a wide range of social sector services that are often provided by an equally wide range of entities, creating difficulty in attributing achievement of obligations under funding agreements.

Further to the challenges created through an outcome based approach to funding, traditional obligations under funding arrangements are often required to be expressed in broad terms to allow service providers the flexibility to respond to service user needs. Service provision may neither be linear, nor reflective of the resource requirements of the service provider, nor reflective of the outputs a service provider in delivering the service. A simple example could be two individuals requiring social work input. One individual may require consistent help of a social worker for an extended period of time whilst the other may require a short intervention, to achieve the same outcome for both.

The Whanganui District Health Board believes that the Performance Obligation Approach will encourage inclusion of obligation measures within funding agreements, which may not be consistent with either the outcomes sought through the funding agreement or reflect service delivery, in an attempt to readily establish the extent of the obligations completed.

Whanganui District Health Board believes Approach 1 – Option (e) combined with Approach 1 – Option (a) provides an entity with surety around revenue recognition flows in an uncertain measurement environment through the use of time as a standard measure, whilst providing transparency of future revenue to be received by disclosure in net assets. The approach will also be less inclined to create artificial performance obligation measures, particularly widget counting, that may be counter to an outcomes based service delivery focus.

Specific matter for comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29-4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36-4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);

Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and

Step 5 – Recognise revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS15 five-steps could be broadened? If not, please explain your reasons.

Yes, but the Whanganui District Health Board does not prefer this approach.

Specific matter for comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS23 for Category B transactions, which option do you favour for modifying IPSAS23 for transactions with time requirements (but no other stipulations):

Option(b) – Require enhanced display/disclosure;

Option(c) – Classify time requirements as a condition;

Option(d) – Classify transfers with time requirements as other obligations; or

Option(e) -Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

The Whanganui District Health Board favours Option (e) – refer to Preliminary view 3.

Option (b) - The public sector funding arrangements are often based on a year-by-year basis where funding received but not utilised in the current period becomes no longer available if it is unable to be recognised as a future obligation. Option (b) would not resolve this within the Statement of Financial Position.

Option (c) – The Whanganui District Health Board believes this option would create too many exceptions to the current reporting framework.

Option (d) – The Whanganui District Health Board believes this option has merit, however, believes Option (e) provides greater transparency.

Specific matter for comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

Yes / No

Please explain your reasons.

Yes.

The exchange/non-exchange distinction is a complicated area. The public sector has a wide variety of funding mechanisms and increased guidance would assist to increase consistency across the sector.

Preliminary view 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB's Preliminary View 4? If not, please give your reasons.

Yes, worth considering.

Specific matter for comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants?

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

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

No comment

Specific matter for comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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

The Whanganui District Health Board believes should choose option (b).

In some public sector and not-for profit entities, services in kind can make up a significant portion of their operating activity. Not measuring this could considerably understate the size of the organisation's operations and its significance to the economy for all stakeholders and decision makers. The Whanganui District Health Board suggests a differential reporting approach to this to ensure the cost of measurement for an organisation does not outweigh the benefit.

Preliminary view 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Yes.

Preliminary view 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Yes.

Preliminary view 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

Yes.

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment. Do you agree with the IPSASB's Preliminary View 8?

Yes.

Preliminary view 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

Yes.

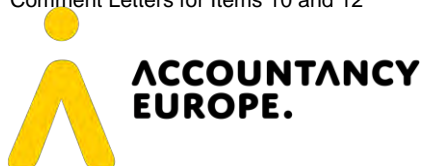
Specific matter for comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfilment Approach;
- (b) Amortised Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS19 requirements?

Please explain your reasons.

No comment.



Ian Carruthers
Chairman
IPSASB
IFAC

Submitted via website

Brussels, 15 December 2017

Subject: IPSASB Consultation Paper on Accounting for Revenue and Non-Exchange Expenses

Dear Sir,

We are pleased to respond to the IPSASB's public consultation on Accounting for Revenue and Non-Exchange Expenses.

We encourage the development of high quality financial reporting standards which are designed to address the specificities of the public sector environment.

We believe that currently gaps exist in the suite of IPSAS Standards on the accounting treatment of expenses (e.g. accounting guidance on non-exchange expenses is missing). Additionally, we would like to point out that preparers encounter difficulties when applying the accounting requirements stipulated in IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

The International Accounting Standards Board (IASB) issued IFRS 15 *Revenue from Contracts with Customers* as a replacement to IAS 11 *Construction Contracts* and IAS 18 *Revenue*. This new IFRS Standard on revenue stipulates a new performance obligation approach for revenue recognition. We believe that full convergence of IPSAS Standards with IASB literature should be pursued for transactions with similar substance.

We also think that this project could serve as an opportunity to review the IPSAS Standards on revenue against the principles set out in the *Conceptual Framework*.

We think that the Preliminary Views and Specific Matters for Comment, outlined in this Consultation Paper, could contribute to improvements on accounting for revenue and to the development of potential requirements and guidance for non-exchange expenses. Users need information on the provision of services to constituents and on the resources available for future use for decision-making and accountability purposes.

Revenue recognition

We agree to replace IPSAS 9 Revenue from Exchange Transactions and IPSAS 11 Construction contracts by a new IPSAS Standard based on the performance obligation approach stipulated by IFRS 15 Revenue from Contracts with Customers for enforceable agreements (i.e. binding arrangements which are not necessarily of a contractual nature) that meet the definition and scope of IFRS 15 (i.e. **Category C** transactions in the Consultation Paper).

We concur with the view that the accounting treatment of revenue transactions that do not contain performance obligations or stipulations (i.e. **Category A** transactions in the Consultation Paper, for example taxes and transfers) should be addressed in an updated version of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

We support the Public Sector Performance Obligation Approach (PSPOA) for transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15 (i.e. **Category B** in the Consultation Paper).

Capital grants

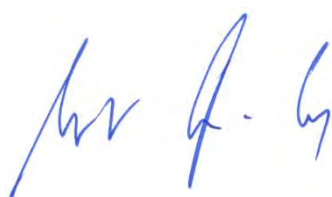
We support mirroring the capital grants' treatment in accordance with IAS 20 *Government Grants and Disclosure of Government Assistance* under IPSAS to achieve convergence between the two accounting frameworks.

Services in-kind

We propose an alternative, more practical accounting approach for services in-kind. We suggest only recognizing services in-kind delivered by traders or professionals. In case of services delivered by traders or professionals, it will likely be feasible to obtain a viable measure of the services provided by reference to the cost of obtaining such services in an observable commercial transaction. We also recommend the IPSASB to highlight in the Application Guidance or Basis for Conclusions the importance of the *Conceptual Framework's* qualitative characteristics (e.g. relevance) in this context. We believe that this principle will result in useful information for the users of the accounts.

Please do not hesitate to contact Ben Renier (ben@accountancyeurope.eu) in case of any additional questions or remarks.

Sincerely,



Edelfried Schneider
President



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 37 countries that represent **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1 – DETAILED RESPONSE

- (1) We are pleased to present below our responses to the Preliminary Views and Specific Matters for Comment.
- (2) Regarding revenue recognition, the IPSASB has proposed to categorize revenue transactions into three broad categories (i.e. Category A, Category B, and Category C). We would like to make the following general remarks concerning this categorisation of revenue transactions. Firstly, we believe it would be very important to provide detailed guidance around the scope of each category (e.g. classification of certain social contributions in either Category A or B). Secondly, we would like to underline that governmental entities have a very significant number of Category A transactions compared to both Category B and Category C transactions. Lastly, we would support a recognition model regarding Category B transactions (i.e. PSPOA; see also Question 4 for more details) which is as close as possible to the model for Category C transactions (i.e. IFRS 15 revenue recognition model; see also Question 1 for more details) to avoid complicating the application of these principles in practise).
- (3) We believe it would be helpful to have guidance concerning the accounting of “pass through” transactions (both inflows and outflows), i.e. funds are transferred from the original resource provider to the ultimate resource recipient via intermediary(ies). Additionally, we would also welcome guidance helping to make the distinction between “agent” (i.e. showing net amounts) and “principal” (i.e. showing gross amounts) accounting.

Question 1: Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and*
- b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.*

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

- (4) We agree to replace IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 11 *Construction contracts* by a new IPSAS Standard based on the performance obligation approach stipulated by IFRS 15 *Revenue from Contracts with Customers* for enforceable agreements (i.e. binding arrangements which are not necessarily of a contractual nature) that meet the definition and scope of IFRS 15 (i.e. Category C transactions in the Consultation Paper). We believe that full convergence of IPSAS Standards with IASB literature should be pursued for transactions with similar substance.

Question 2: Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

- (5) We concur with the view that the accounting treatment of revenue transactions that do not contain performance obligations or stipulations (i.e. Category A transactions in the Consultation Paper, for example taxes and transfers) should be addressed in an updated version of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Question 3: Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- a) Social contributions; and/or*
- b) Taxes with long collection periods.*

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

- (6) We confirm that additional guidance should be provided in an updated version of IPSAS 23 on social contributions and taxes with long collection periods.

Question 4: Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

- (7) We support the Public Sector Performance Obligation Approach (PSPOA) for transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15 (i.e. Category B in the Consultation Paper).
- (8) For Category B transactions, we welcome an accounting approach based on the IFRS 15 five-step model (i.e. the performance obligation approach) but adequately adapted for the public sector environment.

Question 5: Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements to IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29-4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36-4.46);

Step 3 – Determine the consideration (paragraphs 4.47-4.50);

Step 4 – Allocate the consideration (paragraphs 4.51-4.54); and

Step 5 – Recognize revenue (paragraphs 4.55-4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

- (9) We concur with the proposed broadening of the IFRS 15 five-steps as stipulated in the Consultation Paper. We think that these adaptations are necessary to apply the performance obligation approach effectively to Category B transactions in the public sector. On the other hand, we recommend focusing on these major adaptations in an initial stage to avoid complicating the application of these principles in practise. Any additional necessary adaptations might be identified in the light of a Post Implementation Review.

Question 6: Specific Matter for comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- a) Option (b) – Require enhanced display/disclosure;
- b) Option (c) – Classify time requirements as a condition;
- c) Option (d) – classify transfers with time requirements as other obligations; or
- d) Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

- (10) We would like to reiterate that we favour Approach 2, i.e. the PSPOA, for the revenue recognition of Category B transactions. We refer to our response to Preliminary View 3.
- (11) We agree that the current IPSAS 23 treatment of transfers with time requirements (and no other stipulations), i.e. revenue recognition by the resource recipient when the transfers are receivable, might not provide appropriate information to the users about the period over which the resource provider intends the resources to be used.
- (12) If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, we would favour Option (d) which stipulates that transfers with time requirements should be classified as other obligations. We believe that this option (i.e. Option (d)) will result in information that is useful for meaningful assessment of the financial performance and financial position of a public sector entity.
- (13) Option (d) is consistent with the IPSASB *Conceptual Framework* and moreover would allow to recognize revenue over more than one reporting period if applicable.
- (14) We do not favour Option (e) which entails the recognition of transfers with time requirements in net assets/equity and subsequently recycle them through the statement of financial performance. Although the recycling option is consistent with the IPSASB *Conceptual Framework*, this approach would lead to the introduction of the notion 'Other Comprehensive Income' in IPSAS which might undermine the understandability of information by the users including citizens.

Question 7: Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provided additional guidance on making the exchange/non-exchange distinction?

- a) Yes
- b) No

Please explain your reasons.

- (15) Yes, we agree combining the option identified in SMC 3 (i.e. Option (d)) with Approach 1 Option (a), which entails to provide additional guidance on making the exchange/non-exchange distinction. In practice it is sometimes difficult to apply the terms 'directly' and 'approximately equal value', which are included in the definitions of exchange and non-exchange transactions, to a specific transaction. We welcome additional guidance to address this issue.

Question 8: Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

- (16) We recommend the IPSASB to explicitly address the accounting for capital grants to ensure consistency and comparability.

Question 9: Specific Matter for Comment 5 (following paragraph 5.5)

- a) *Has the IPSASB identified the main issues with capital grants?*
If you think that there are other issues with capital grants, please identify them.
- b) *Do you have any proposals for accounting for capital grants that the IPSASB should consider?*
Please explain your issues and proposals.

- (17) We think that the pattern of revenue recognition is indeed the main issue concerning the accounting of capital grants. The lack of specific guidance leads to revenue being recognized in various ways depending on whether the funding includes restrictions and/or conditions.
- (18) We support mirroring the capital grants' treatment in accordance with IAS 20 *Government Grants and Disclosure of Government Assistance* under IPSAS to achieve convergence between the two accounting frameworks.

Question 10: Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- a) *Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or*
- b) *Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or*
- c) *An alternative approach.*

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

- (19) We note that the current option to recognise services in-kind is rarely applied in practice. This might result from the practical difficulties to generate reliable information or the limited informational value of this information.
- (20) As such we propose an alternative, more practical accounting approach for services in-kind. We suggest only recognizing services in-kind delivered by traders or professionals (please see next paragraph for explanation of this notion). In case of services delivered by traders or professionals, it will likely be feasible to obtain a viable measure of the services provided by reference to the cost of obtaining such services in an observable commercial transaction. We also recommend the IPSASB to highlight in the Application Guidance or Basis for Conclusions the importance of the *Conceptual Framework's* qualitative characteristics (e.g. relevance) in this context. We believe that this principle will result in useful information for the users of the accounts.
- (21) Concerning the notion 'services in-kind delivered by traders or professionals', we are referring to services provided for free by individuals which are offering (or offered) similar professional services at market conditions as part of their normal professional activities (e.g. a professional accountant does the bookkeeping of an NGO for free or a taxi driver offers free taxi rides to a non-for-profit organisation).

Question 11: Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligor Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

- (22) We agree that non-exchange transactions related to both universally accessible services and collective services do not impose performance obligations on the resource recipient. Consequently, these non-exchange transactions should indeed be accounted for in accordance with the Extended Obligor Event Approach.

Question 12: Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

- (23) Resources linked to non-exchange transactions of universally accessible services and collective services should indeed be expensed as services are delivered considering that there is no related obligating event.

Question 13: Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

- (24) We concur applying the PSPOA for non-exchange expenses to recognize expenses and liabilities linked to grants, contributions, and other transfers that contain either performance obligations or stipulations. The five-step revenue recognition approach should be reconfigured from the perspective of the resource provider.

Question 14: Preliminary View 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

- (25) We support initial measurement of non-contractual receivables at face value (legislated amount) of the transaction with any amount expected to be uncollectible identified as an impairment. We believe this approach promotes accountability and is in the public interest. Where uncollectible amounts are significant, management and elected officials should provide explanations.

Question 15: Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

- (26) We concur with the Preliminary View 9, namely that non-contractual receivables should be measured subsequently in accordance with the fair value approach.

Question 16: Specific Matter for comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- a) *Cost of Fulfilment Approach;*
- b) *Amortized Cost Approach;*
- c) *Hybrid Approach; or*
- d) *IPSAS 19 requirements?*

Please explain your reasons.

- (27) We would need to better understand the differences of the information produced from a public interest or users' perspective to conclude on this matter. Currently, we would have a slight preference for Option a) Cost of Fulfilment as this is in accordance with the *Conceptual Framework* and produces understandable information, as outlined in paragraph 7.42 of the Consultation Paper. However, we do not have a strong view on that.



The Technical Director
 International Public Sector Accounting Standards Board
 International Federation of Accountants
 277 Wellington Street West
 Toronto, Ontario M5V 3H2
 Canada
 19 December 2017
Per electronic submission

Dear John,

COMMENT ON CONSULTATION PAPER ON ACCOUNTING FOR REVENUE AND NON-EXCHANGE EXPENSES

We welcome the opportunity to comment on the Consultation Paper on *Accounting for Revenue and Non-exchange Expenses*. We support the initiative of the IPSASB to address some of the issues raised with the application of IPSAS 23, *Revenue from Non-exchange Transactions (Taxes and Transfers)* and to consider how the latest international thinking on revenue recognition principles could be applied in the public sector.

The views expressed in this letter are those of the Secretariat and not the Accounting Standards Board (Board). In formulating its comments, the Secretariat consulted with a range of stakeholders, including auditors, preparers, consultants, professional bodies, and other interested parties. Our responses to the preliminary views and specific matters for comment are included as Annexure A, while other comments are included as Annexure B to this letter.

We are of the view that the IPSASB should reconsider the interaction between the proposed revenue recognition approaches for the categories of revenue identified in the consultation paper. We have included our comments on this matter as “Other Comment 1” in Annexure B.

We found the consultation paper unclear on the next steps that will be taken based on the preliminary views expressed for category B and C revenue transactions. We would, however, suggest that the IPSASB develop one standard for all transactions with performance obligations, if an approach based on whether a transaction contains a performance obligation is selected.

Board Members: Ms T Coetzer (Chair), Mr B Colyvas, Ms I Lubbe, Mr M Kunene, Mr K Makwetu,
 Ms Z Mxunyelwa, Mr V Ndzimande, Ms N Ranchod, Ms R Rasikhinya, Ms C Wurayayi
 Alternates: Ms L Bodewig, Ms M Sedikela
 Chief Executive Officer: Ms E Swart, Technical Director: Ms J Poggiolini

It is also unclear how an updated IPSAS 23 (presumed to retain the current “exchange”/“non-exchange” approaches) for category A transactions will interact with an approach based on whether a transaction contains a performance obligation for categories B and C transactions. What is specifically unclear is what the scope of the various Standards will be and how information will be presented. Any change in presentation will have a pervasive impact on IPSASs, e.g. IPSAS 1 *Presentation of Financial Statements* which requires the separate presentation and disclosure of information about receivables from exchange and non-exchange transactions.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Poggiolini', with a stylized, cursive script.

Jeanine Poggiolini

Technical Director

ANNEXURE A – PRELIMINARY VIEWS AND SPECIFIC MATTERS FOR COMMENT

Preliminary View 1 - Chapter 3 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and*
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.*

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

In principle, we support the view that the IPSASB updates the existing requirements to account for revenue in line with the latest international thinking from IFRS 15. The principle of recognising revenue as performance obligations (promises in a contract with a customer) are satisfied is sound. We believe that this principle will be useful in the public sector to determine how, when and what amount of revenue should be recognised.

We are, however, of the view that due consideration should be given to amendments that may be necessary to the IFRS 15 five-step revenue recognition model to be appropriate for the public sector, even if transactions are on a commercial basis. We are of the view that more extensive changes than terminology modifications, such as replacing “contract” with “binding arrangement”, would be necessary, and suggest that the IPSASB considers the following:

- In IFRS 15, revenue is not recognised unless it is probable that consideration will be received. If this criterion is not met, there is no revenue transaction. If any consideration is received, it will either be deferred until all the performance obligations are met or, alternatively, consideration is recognised when cash is received. In the public sector, entities may not be able to determine upfront that it is probable that consideration will be received, because public sector entities often do not have a choice with whom they transact and do not have information of the counterparty's credit risk. For example, a municipality has an obligation to provide electricity which is provided to all households, businesses, industrial parks and other public sector institutions on a commercial basis, even though some amounts would be uncollectable. We suggest that the IPSASB considers if the consequence of this step in the IFRS 15 model results in appropriate information for users in the public sector.
- Considerations discussed in Chapter 4 of the consultation paper for the Public Sector Performance Obligation Approach (PSPOA) are also relevant for commercial transactions, e.g. guidance may be necessary on determining who the customer is. For example, an entity enters into a tripartite arrangement with a resource provider to construct an infrastructure asset on commercial terms (typical construction contracts currently in the scope of IPSAS 11). Once the asset is completed, the asset is transferred to another entity in terms of the agreement, and is not the property of the resource provider. It may not be clear whether the resource provider or the other entity is the customer.
- It could be difficult to determine when a transaction is on commercial terms and has all the characteristics of an IFRS 15 transaction in the public sector as governments' objectives remain different to the private sector. Even relatively straightforward sale transactions in the public sector may not be on full commercial terms. We believe guidance will be necessary to assist preparers in this regard.

- The private sector has found it difficult to implement IFRS 15 as the standard is complex. Extensive guidance would need to be provided, especially on (a) applying the model where multiple goods and services are provided (i.e. more than one performance obligation) in one contract, (b) how to identify distinct goods and services, and (c) the treatment of variable consideration.
- A significant amount of management judgement is applied in the IFRS 15 model in deciding when and how much revenue is recognised. Sufficient application guidance should be provided to ensure entities apply the principles correctly and do not manipulate the model to achieve a particular outcome. Sufficient disclosure of management judgement is key to ensuring users' needs are met.

We believe it is important to clearly address how the IFRS 15 model will apply to construction contracts currently in the scope of IPSAS 11 (which includes both exchange and non-exchange transactions). The consultation paper appeared to focus on IPSAS 9 transactions. Public sector entities in South Africa frequently construct assets on behalf of other public sector entities, and the application of IPSAS 11 is pervasive across the sector. Construction contracts are an area locally where the private sector has encountered difficulty in implementing IFRS 15. Specifically, the timing of revenue recognition based on how performance obligations are defined in a contract was found problematic. The example below illustrates this issue.

An entity could enter into a contract to deliver a construction service, where construction is undertaken according to the requirements and specifications of the customer, e.g. an entity constructs an administration building for a customer based on the requirements and specifications of the customer. An entity could also enter into a contract to deliver a completed product to a customer, which is built according to its own requirements and specifications without any inputs from the customer, e.g. an entity sells a completed administration building to a customer. For a construction service, revenue is recognised over time, whereas revenue is recognised at a point in time when goods are sold. In IFRS 15, revenue would be recognised as performance obligations in the contract are satisfied, and could be at a point in time, or in specific circumstances over time. It may even cause entities to reconsider how they contract with customers to manipulate the accounting results.

Please refer to our "Other Comment 1" for our comments on the interaction of the various revenue recognition models.

Preliminary View 2 – Chapter 3 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

We agree with the IPSASB's Preliminary View 2. However, we believe there are a number of things to consider if an updated IPSAS 23 will be retained.

1. Please refer to our "Other Comment 1" for our views on the interaction of the various revenue recognition models.
2. It would be important for the IPSASB to clearly define a "performance obligation" in the public sector to determine which transactions will fall in this category.

All entities in the public sector have service delivery objectives and are accountable to resource providers, service recipients, and the relevant oversight and governance structures to meet those objectives. This accountability could be through formal mechanisms such as a performance agreement with a minister. One could argue that even operational funding with no conditions or

stipulations, such as transfers, contain performance obligations, as entities are expected to meet their service delivery mandate and objectives.

A distinction that may be useful could be to make it clear that an entity should consider if it has a performance obligation that is clearly linked to a specific transaction. This is different to an entity's overall annual (or longer term) service delivery objectives.

3. We believe it would be important to consider the impact that amendments to IPSAS 23 could have on how an entity classifies and accounts for transactions that were previously regarded as non-exchange and in the scope of IPSAS 23. Some of the transactions that were previously classified as non-exchange and within the scope of IPSAS 23 could have performance obligations, and therefore are outside the scope of the amended IPSAS 23. For example, conditional grants are non-exchange and currently in the scope of IPSAS 23. These grants likely have performance obligations and will be classified as category B transactions per the consultation paper. The IPSASB proposes the PSPOA approach for these transactions going forward, which would result in different accounting requirements.
4. We noted in the consultation paper that there are instances where a step in the PSPOA cannot be applied to a transaction in category B, e.g. the consideration is not clearly linked to the performance obligations in the arrangement. The consultation paper is unclear about how these transactions will be classified, but it is presumed they will be classified as category A transactions. Since these transactions have performance obligations, the IPSASB should consider if an updated IPSASB 23 will result in appropriate revenue recognition for these transactions.

Specific Matter for Comment 1 – Chapter 3 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) *Social contributions; and/or*
- (b) *Taxes with long collection periods.*

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

We agree that application issues exist with IPSAS 23, most of which were identified by the IPSASB in the consultation paper.

It would be useful if guidance can be provided on the following matters:

- The impact of legislation on the requirements of the standard when recognising revenue from grants and transfers, for example, legislation could:
 - Allow government to withhold an entity's allocation if certain activities are not performed, or not performed on time, e.g. administrative functions such as approval of a budget and submission to Parliament were not done on time.
 - Set a grant framework that is restrictive so that stipulations are only satisfied after all deliverables, including administrative deliverables, have been met. This could result in delayed revenue recognition.
 - Require entities to surrender surplus funds back to government after each financial year if approval has not been obtained to retain them. Uncertainties exist regarding whether a liability should be recognised at year-end where an entity receives approval to retain the funds; as well

as how the return of surplus funds should be accounted for, i.e. a reduction of revenue as the entity was never entitled to it, or an expense, or something else.

- Require entities to collect all monies owed to government. To hold entities accountable, the requirement in the standard that revenue and receivables are recognised to the extent that the flow of future economic benefits or service potential is probable could be misleading to the users as it does not reflect an entity's legal obligation to collect all monies owed to government. The IPSASB should consider if it would be more appropriate to initially present gross revenue due to government, and reflect uncollectability as a subsequent measurement event of the related receivable, by recognising an impairment loss (refer Preliminary View 8). In IFRS 15, revenue is recognised at the gross amount, unless it is not probable that consideration will be received (refer to comments provided in Preliminary View 1 above). If the IFRS 15 revenue recognition model is adopted for category B and C transactions (refer to Preliminary View 1 and Preliminary View 3), there would be an inconsistency between IPSAS 23 applied for category A transactions, and the IFRS 15 revenue recognition model applied for category B and C transactions.
- Determining when an arrangement contains conditions or restrictions, as it is often unclear in the public sector. It is also often unclear whether an arrangement has a return obligation, for example, the arrangement may determine that assets should be returned to the resource provider without stipulating if this includes unspent cash, or the circumstances when it should be returned. It could also be unclear what the amount of the return obligation is, e.g. is it the whole allocation or only a part thereof. Guidance could be provided that if certain indications of the existence of conditions or restrictions are not observable, revenue should be recognised as if no conditions or restrictions are present.

Preliminary View 3 - Chapter 4 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

In principle, we support the view that the IPSASB updates the existing requirements to account for revenue in line with the latest international thinking from IFRS 15, as expressed in Preliminary View 1 above.

We do, however, have reservations about the PSPOA, as a number of uncertainties exist regarding the approach. These uncertainties are included in Specific Matter for Comment 2 below.

It is unclear in the consultation paper if the IPSASB has performed an assessment on whether a PSPOA will resolve the issues experienced under the current exchange / non-exchange model. We are unsure from the information in the consultation paper whether the issues would be resolved, given the uncertainties with the PSPOA included in Specific Matter for Comment 2 below. We recommend that the IPSASB undertakes an assessment, before concluding on this Preliminary View, to ensure a PSPOA will resolve the current issues experienced. We also recommend that the IPSASB considers whether the PSPOA will provide the necessary information for users to hold entities accountable and make decisions, i.e. meet the objectives of financial reporting for the public sector. We are unable to agree or disagree with this Preliminary View with the information currently provided.

A minority view was expressed that the current exchange / non exchange approach is preferred above a PSPOA, as the exchange / non-exchange approach is less complex for the type of transactions included in category B. It was also noted that IFRS 15 (and the PSPOA) is geared for commercial

transactions, which may not provide the correct accounting treatment for the public sector. For example, because performance obligations are often not clearly established in a public sector arrangement, entities may conclude that revenue can only be recognised when all obligations in an arrangement have been fulfilled, resulting in delayed revenue recognition that does not reflect how an entity has performed and earned revenue.

Please also refer to “Other Comment 1” in Annexure B for our views on the interaction of the various revenue recognition models.

Specific Matter for Comment 2 - Chapter 4 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29 – 4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36 – 4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);

Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and

Step 5 – Recognise revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

We mostly agree with how the IFRS 15 five-steps have been broadened for the public sector. We include further matters for the IPSASB’s consideration below.

Step 1

Identifying a binding arrangement

Identifying a binding arrangement could be difficult in the public sector as entities may incur rights and obligations similar to a contract through various mechanisms. A clear definition of a binding arrangement and extensive guidance on how it should be identified should be provided.

Clear guidance would need to be provided on determining which documents constitute a binding arrangement so as to identify performance obligations, as this will affect how, when, and how much revenue is recognised. For example, entities could annually be appropriated conditional grants in law, and receive an annual allocation letter from its line Ministry. The allocation letter could set out further conditions and restrictions on the use of the grant, which could be read as performance obligations. The allocation letter is not signed by the entity, nor does the entity have any say in the terms thereof. It is unclear if such letters should be considered a „binding arrangement“.

Enforceability of arrangement

We suggest that the enforceability of the arrangement be further explained as it is unclear what should be considered to determine if an arrangement is enforceable. For example, the allocation letter from the line Ministry referred to in the previous paragraph is not signed by both parties, although the entity is expected to comply with its contents.

The phrase “reductions of future funding for the same program” as an enforceability mechanism (paragraph 4.32 of the consultation paper) is unclear and should be clarified. There could be a number

of reasons why there is a reduction in future funding of a program that are not linked to the enforceability of a binding arrangement, for example, government-wide budget cuts.

Parties to the arrangement

We agree with how the parties to the arrangement have been clarified. It may be necessary to clarify how the guidance should be applied to principal-agent arrangements.

Step 2

A clear definition of a performance obligation in the public sector should be provided.

Identifying performance obligations in a binding arrangement could be difficult, especially where more than one performance obligation exists in a binding arrangement. The private sector is establishing principles for certain industries. We are of the view that it would be useful to see if guidance developed in the private sector on identifying performance obligations can be applied by the public sector.

Step 3

Identifying the consideration could be problematic where the agreement is not for a specified amount, but includes variable consideration. The private sector has recognised that variable consideration is both a significant change from the previous model (where consideration was fixed and determinable), and a challenge in the implementation of IFRS 15. This step can be complex as it requires estimation and management judgement.

For example, construction contracts often include penalties or bonuses for late or early finalisation of a project. Industries could also have established practices to give discounts, which should be considered to determine the variable consideration. In the public sector, discounts could even be determined in law or similar means.

Sufficient guidance would need to be provided on how the amount of variable consideration should be identified and calculated.

Step 4

The cost of fulfilment would provide an appropriate basis on which to allocate the consideration. It could, however, be difficult to determine. This is because the cost of fulfilment often consists of various cost elements, some of which may need to be allocated among various activities, and would require management to make estimations. Public sector entities often do not have sophisticated systems to enable them to calculate the cost of fulfilment and may not have all the necessary information available. Sufficient guidance should be provided on what costs should be included and how they should be measured.

Guidance should also be provided on how to allocate consideration where a binding arrangement includes consideration for performance obligations as well as a transfer with no performance obligations. Allocating the consideration between the transfer (category A transaction) and performance obligations (category B or C transaction) could be problematic in the absence of guidance.

Step 5

No specific comments have been noted.

Specific Matter for Comment 3 - Chapter 4 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) *Option (b) – Require enhanced display/disclosure;*
- (b) *Option (c) – Classify time requirements as a condition;*
- (c) *Option (d) – Classify transfers with time requirements as other obligations; or*
- (d) *Option (e) – Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.*

Please explain your reasons.

We favour **option (b)** that will retain the existing revenue recognition requirements, but will require entities to include additional display or disclosure in the financial statements. This is because only conditions with return obligations have accounting consequences in terms of the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. Without a return obligation, an entity can effectively use the resources in any accounting period and for any purpose. Option (b) could provide all the necessary information to the users, while being conceptually sound, and easy and cost effective to implement.

We are, however, of the view that the IPSASB should consider the following when introducing option (b):

1. The statement of financial performance is often presented with a significant number of line items, which can detract from a user's ability to understand the information. For the statement of financial performance to comply with the qualitative characteristics in the Conceptual Framework, we support disclosure in the notes, as proposed in paragraph 4.14(a) and illustrated in paragraph 4.16 of the consultation paper.
2. An entity may have received a large number of grants without conditions where additional disclosure would be required. The IPSASB should consider providing guidance on the level of aggregation at which information should be disclosed.
3. The consultation paper only considered that time requirements as a restriction should be further explained to the users. There could, however, be many other restrictions that an entity would also want to explain to the users through additional disclosure. For example, an entity that receives a grant with no return obligation and no time requirements, but a restriction that the money can only be used to supply services to a certain community. The entity would want to disclose the proportion of the revenue and related number of community members serviced in a year in relation to the total revenue and number of community members to be serviced with the grant, although all the revenue would have been recognised initially. We therefore suggest that entities should be allowed to apply judgement to decide for which restrictions additional information should be disclosed.

In general, we believe that consideration should be given to how users could be better educated about information in the financial statements. For example, when users see an entity has made a surplus in a year, it is assumed the entity is performing well and does not need additional funding. The contrary is true when an entity has made a deficit. A surplus or deficit could, however, be due to a number of factors that do not necessarily reflect an entity's performance, and which are generally not well understood by users. We also acknowledge that accounting requirements will not solve uncertainties that exist where agreements are not clearly drafted. We believe providing information through well drafted accounting policies and disclosure in the notes would go some way in achieving better understanding, which the IPSASB could emphasize in the guidance provided.

We have received the following views relating to the other options:

Options (c) and (d)

Stakeholders were generally uncomfortable with options (c) and (d) and questioned the conceptual correctness thereof and how well users would be able to understand the information presented. Option (d) may be particularly difficult for users to understand as it has not been used before.

Option (e)

Stakeholders were generally not supportive of option (e), because it could result in inappropriate accounting practices that are similar to fund accounting, and it would be difficult for users to understand that a portion of revenue has been recognised in the statement of changes in net assets.

There was, however, a view that option (e) will be suitable as it removes volatility from the statement of financial performance and simplify the accounting treatment.

Specific Matters for Comment 4 - Chapter 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Yes, we agree that additional guidance on making the exchange / non-exchange distinction should be provided. Applying the definition of exchange transactions, particularly the phrases “directly giving” and “approximately equal value”, is problematic in practice. Additional guidance, including practical examples, would be useful to make the distinction clear.

Preliminary View 4 - Chapter 5 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

Yes, we agree that there is currently a lack of guidance on how to account for capital grants and that the IPSASB should address this within IPSASs.

Specific Matters for Comment 5 - Chapter 5 (following paragraph 5.5)

(a) *Has the IPSASB identified the main issues with capital grants?*

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

(b) *Do you have any proposals for accounting for capital grants that the IPSASB should consider?*

Please explain your issues and proposals.

(a) Yes, the IPSASB has identified the main issues with capital grants. Capital grants is an area where uneven revenue recognition exists, because:

- Conditions attached to capital grants are often strict and mean that revenue recognition is delayed. E.g. a condition that the grant must be repaid if the completed building does not meet a list of requirements. An approach that better aligns the intended use of the funds with how they were actually utilised would provide better information to the users.

- Conditions could be so lenient that an entity can recognise all revenue upfront before performing the work. E.g. the only condition could be that an entity buys a property on which to construct a building for which the grant is intended. Although some entities view the volatility in their statement of financial performance by recognising all the revenue upfront in one year as a problem, others could welcome it to hide other operating deficits in that particular year. This does not assist users to hold entities accountable. Information would be more useful if it allows a user to compare an entity's capital work-in-progress to the revenue recognised from the grant in that year.
- Expenditure related to capital grants is capitalised and not recognised in the statement of financial performance, which may lead to a surplus in the year(s) that the revenue is recognised.

We furthermore suggest that the IPSASB considers including guidance on distinguishing capital grants that are specifically allocated for capital projects and often with conditions, from general transfers, which may also be used for capital expenditure at the entity's discretion. Because the entity would not have discretion over the use of a specific capital grant with conditions, the appropriate accounting treatment may differ from general transfers where an entity can decide how to use them.

- (b) As capital grants are intended for capital projects, IPSASB could consider a revenue recognition model similar to the model that will be applied to construction contracts.

Specific Matter for Comment 6 – Chapter 5 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) *Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or*
- (b) *Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or*
- (c) *An alternative approach.*

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

We prefer **option (b)** to modify the existing requirements to require services in-kind to be recognised under certain circumstances, because entities' financial statements could otherwise misrepresent the resources required to fulfil their mandates.

Difficulties with measuring services received in-kind exist, but only recognising those services in-kind that can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information, would result in useful information in the financial statements.

We suggest that the IPSASB considers the following:

- Where services received in-kind do not meet the criteria to be recognised, it may be appropriate to require entities to disclose information about the nature and type of services received in-kind. For example, services received in-kind from international donors, such as humanitarian aid and disaster relief, could be very difficult to quantify given a number of factors that could play a role, including exchange rates and the timing of receipt of the services. It could, however, be significant and important to disclose information regarding the benefits received to users.

- For comparability purposes and to provide sufficient information to users, it may be appropriate to also require disclosure of the nature or type of recognised services received in-kind.
- Based on the approach in (b), there may be certain types of services received in-kind that should be recognised but are not relevant to the entity and would not be of interest to users. The IPSASB could consider introducing further requirements for when to recognise services received in-kind, e.g. when they are significant to an entity's operations or service delivery mandate and objectives.
- We are of the view that it is irrelevant whether an entity would have procured the services if it had not been received in-kind, because the entity has received the benefits. Overlaying an additional requirement, as discussed in the point above, would better reflect to users what resources the entity requires to deliver on its mandate.
- As with any other information in the financial statements, materiality should be considered.

Preliminary View 5 - Chapter 6 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

It is not clear what types of non-exchange expenses will be included in universally accessible services and collective services. For example, to provide street lighting, an entity procures infrastructure and electricity. Both these elements are exchange expenses that are recognised in terms of other IPSASs. Similarly, expenses to provide public education would be exchange transactions, such as teacher salaries, learning material, etc.

We are of the view that the IPSASB should re-consider the appropriateness of the guidance proposed in the consultation paper based on the following:

1. If the thinking is that these exchange elements of providing the services should be reclassified from various line-items in the financial statements to a non-exchange expense line-item:
 - These elements are recognised in terms of other IPSASs. There is no need for specific guidance on their recognition. Guidance may need to be provided on the classification.
 - IPSAS 1 *Presentation of Financial Statements* requires that expenses are analysed by nature or function. Re-classifying certain elements from current line items by nature or function to line items specifically for non-exchange expenses could impact compliance with this requirement.
 - It is unclear if entities will be required to separately present exchange and non-exchange expenses. If so, the same difficulties with classifying revenue, as discussed in the consultation paper, will exist for expenditure. One transaction could have elements of both exchange and non-exchange. For example, a public hospital could provide free services and paid services, depending on e.g. a patient's financial status. This would require allocating all hospital expenses between paid and free services, e.g. allocating a doctor's salary based on hours spent on patients who do not pay vs. those who pay, etc.
2. If the non-exchange expenses referred to as universally accessible services and collective services in the consultation paper are:
 - actual non-exchange expenses (we could not identify a specific example), we suggest the IPSASB considers if specific guidance is necessary to account for them.

- cash transfers to other entities to provide these services, or cash transfers to households, we are of the view that these transfers are in the category of expenses included in Preliminary View 7 below, “grants, contributions and other transfers”.

As we are unclear about the types of transactions that the IPSASB proposes should be recognised with this approach, we cannot agree with the Preliminary View. We agree with the principles proposed for the approach, i.e. a liability should be recognised when the criteria in the Conceptual Framework are met, with the related expense; and an entity should recognise an asset if a condition with a return obligation exists, and once the condition is met it will be expensed.

Please refer to our view included in Preliminary View 7. This approach may be appropriate for the transactions included in Preliminary View 7, i.e. grants, contributions and other transfers, although we are unsure about the scope of those transactions.

Preliminary View 6 - Chapter 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Yes, we agree with the Preliminary View. Liabilities should be recognised when the definition is met. If there is no obligating event, no liability should be recognised and resources should be expensed as services are delivered.

Preliminary View 7 - Chapter 6 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB'S preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

We are of the view that the PSPOA for non-exchange expenses would not necessarily be appropriate, for the following reasons:

- Please refer to “Other Comment 2” in Annexure B for our comments on the types of non-exchange expenses identified. It is unclear what type of transactions will be included in this Preliminary View.
- Please refer to Specific Matter for Comment 2 where some uncertainties regarding the PSPOA for revenue transactions were expressed. The same uncertainties would exist for non-exchange expense transactions.
- Although a good starting point, mirroring the transactions for resource provider and resource recipient is not necessarily the best information for a user and should not be the only consideration.

For example, when Entity A transfers funds to Entity B for Entity B to deliver goods or services to third parties, and the arrangement is not a principal-agent arrangement, Entity A has funded Entity B. Entity B will recognise exchange expenses in accordance with existing IPSASs to provide the goods or services to third parties as they are incurred, and will recognise the related revenue (transfer from Entity A) in a manner to be determined from this project. Entity A will recognise a non-exchange transfer payment to Entity B, which does not need to reflect when Entity B incurs the exchange expenses to deliver the goods or services. If, however, Entity A procured goods or services from Entity B to deliver to third parties, the nature of what Entity A has procured is

exchange goods or services. This will be recognised in accordance with existing IPSASs by Entity A.

- Guidance for exchange expenses is mostly provided through IPSASs dealing with the statement of financial position. The statement of financial performance is the result of these transactions. It is unclear in which format the IPSASB proposes to provide this guidance, but we suggest that the same approach be followed for non-exchange expenses.

We therefore believe it would be more appropriate to apply the Extended Obligating Event Approach to the transactions included in Preliminary View 7, and not a PSPOA.

A minority view was, however, expressed that a PSPOA for the transactions included in Preliminary View 7 could positively assist to hold entities accountable for grants and other funds they are transferring and could curb fiscal dumping where an entity has not performed in a year.

Preliminary View 8 - Chapter 7 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

It is unclear what is meant by "... with any amount expected to be uncollectible identified..." in the consultation paper. It could mean one of three things:

- (a) the gross amount of revenue is initially recognised, with the receivable being recognised at the gross amount less impairment, and a day 1 impairment loss recognised in the statement of financial performance,
- (b) revenue and the related receivable are recognised at the amount net of impairment, or
- (c) revenue and the related receivable are recognised at the gross amount. Any initial impairment is identified, but not recognised. Impairment is re-assessed at year-end and recognised against the receivable and an expense in the statement of financial performance.

It is furthermore unclear if entities should consider uncollectability based on the incurred loss model, or the expected credit loss model (proposed in the IPSASB's Exposure Draft on *Financial Instruments*).

IFRS 15 includes a practical expedient that financial assets that will be collected in less than 12 months need not be discounted. The IPSASB should consider if this practical expedient would also be useful for non-contractual receivables, since they are likely short-term in nature.

We are of the view that revenue (refer Specific Matter for Comment 1) and the related receivable should be recognised at the gross value initially and that uncollectability should be considered as a subsequent measurement event at year-end, i.e. interpretation (c) above.

Preliminary View 9 - Chapter 7 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

We do not agree that non-contractual receivables should subsequently be measured at fair value, for the following reasons:

- Receivables from contractual arrangements are not measured at fair value, but are measured at

amortised cost, as proposed in the IPSASB Exposure Draft on *Financial Instruments*. Contractual and non-contractual receivables are similar in nature and the conceptual reason for treating non-contractual receivables differently is unclear.

- Determining a market interest rate would be difficult and entities would not have all the required information, such as market information and the counter party's credit risk. We do not think using a government bond rate would be an appropriate alternative as the government bond market could differ significantly from the market for a non-contractual receivable (which often does not exist) and does not take the risks of the transaction into consideration.
- It would be difficult for a user to understand the movement from the initial measurement model suited for the receivable (refer Preliminary View 8), to a subsequent measurement model that is fair value, because fair value reflects what an instrument is worth in a market and these instruments generally do not have a market. A user would need information about the reasons for the underlying changes in fair value, e.g. changes due to market risk, credit risk, etc.

We are of the view that these receivables should subsequently be measured at amortised cost, because similar financial instruments are measured at amortised cost and these instruments are not substantially different. We are also of the view that these types of receivables would generally be settled within a relatively short period of time.

As an alternative, if determining amortised cost proves too unreliable and difficult for these types of receivables, we are of the view that they could be measured at cost.

Specific Matter for Comment 7 – Chapter 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) *Cost of Fulfilment Approach;*
- (b) *Amortised Cost Approach;*
- (c) *Hybrid Approach; or*
- (d) *IPSAS 19 requirements?*

Please explain your reasons.

We prefer **option (a)**. We are of the view that the cost of fulfilment approach would provide the most useful information to the users regarding the value of an entity's non-contractual payables, because it will present the best estimate of the amount required to settle the obligation, and would take time value for money into consideration, if material.

The cost of fulfilment is furthermore likely what entities have been applying in the absence of specific guidance.

Alternatively, measuring non-contractual payables at amortised cost would be in line with the financial instruments they resemble, and because these payables are generally short-term in nature, the effect of discounting may often be negligible.

ANNEXURE B – OTHER COMMENTS

1. Revenue recognition models

Category B and C transactions

It is unclear in the consultation paper how the IPSASB plans to implement the Preliminary View 1, read together with Preliminary View 3. From the IPSASB work programme discussed at the December 2017 meeting, it appears as if two separate standards will be developed: one standard that contains an IFRS 15 five-step revenue recognition model for commercial transactions; and another standard with a similar model modified for the public sector and transactions that do not have all the characteristics of IFRS 15 transactions (the PSPOA).

We are of the view that (a) only one model should be developed for all Category B and C transactions if it is feasible to proceed with the PSPOA, and (b) this should be addressed in one standard. This is because:

- One standard can easily explain the five-step model in IFRS 15, with additional guidance on each of the five steps where not all of the characteristics of an IFRS 15 transaction exist (the guidance currently included for the PSPOA).
- Applying the PSPOA to “commercial transactions” in the public sector would likely render the same answer as applying the pure IFRS 15 model. It is also likely that there are not many transactions in the public sector that meet all the characteristics of an IFRS 15 transaction. There is therefore no need for two separate models or two separate standards.
- A number of complexities exist with the IFRS 15 model in each of the steps. Extensive guidance on the application of the model would need to be provided twice if two separate standards are developed.
- There would be significant duplication of content if two separate standards are developed.
- It would be difficult to establish within which standard a transaction falls as the distinguishing factors between the purely commercial public sector transactions and those that do not have all the characteristics of IFRS 15 transactions have not been established and would likely be a “grey area”.
- There is a general lack of resources, such as skills and financial means, available in the public sector. The model should be as easily understandable and implementable as possible. Having two standards with a similar model; or even two similar models in one standard, would unnecessarily complicate the accounting treatment and detract from the usability of the standards.

It is also unclear from the consultation paper where an entity should start to categorise transactions. E.g. is it a cascading model where an entity first assesses a transaction against IFRS 15? If it does not meet all the characteristics, does an entity apply the PSPOA? If a step in the PSPOA cannot be applied, because the transaction does not have the characteristics required, is the transaction in category A?

Classification of revenue transactions as Exchange / Non-exchange vs. Performance Obligations

It is unclear from Preliminary View 1, Specific Matter for Comment 1, Preliminary View 2 and Preliminary View 3 how the IPSASB envisages the various models will work together.

If Preliminary View 2 is retained and IPSAS 23 is updated for Category A transactions, does it mean that the current exchange / non-exchange model partially remains (as it is the basis for IPSAS 23), and this is then applied together with a model based on performance obligations for Category B and C transactions (as outlined in Preliminary View 1 and Preliminary View 3)?

We foresee that this will cause a number of difficulties, particularly with determining in which category transactions fall. Although the categories have briefly been described in the consultation paper, there could be a number of transactions that currently do not clearly fall in a specific category, while some may fall in more than one category. For example, licenses and permits:

- They could be seen as being provided on commercial terms, especially when predominantly provided to the private sector.
- They are often provided with conditions and other stipulations on the license holder and there could also be performance obligations for the issuer of the license.
- There is an argument that it could be a tax as the license holder does not have a choice in procuring it.
- There could be various ways to recognise the revenue, e.g. immediately, or over the period of use or right granted, which would be determined by the classification of the item.

We are therefore of the view that the IPSASB should decide to use either the exchange / non-exchange model, or a model based on performance obligations, and use it consistently across all categories of revenue. The categories should also be clearly described, with extensive principle-based guidance on how to classify transactions. Otherwise the same difficulties expressed with classifying transactions as either exchange / non-exchange, will remain with determining whether an entity has performance obligations or not.

The IPSASB should also consider how a performance obligation approach for categories B and C transactions would interact with the Government Finance Statistics (GFS). The GFS requires information about which transactions are exchange and non-exchange. It is unclear how this GFS need will be met if an exchange / non-exchange model is replaced with a model based on performance obligations. It may result in entities being required to have information for both models available. This has not been considered in the consultation paper.

2. Types of non-exchange expenses

We are of the view that the consultation paper does not address all types of non-exchange expenses that were not excluded from the scope of the consultation paper.

The consultation paper includes in its scope (par. 6.2):

- (a) Collective services
- (b) Universally accessible services; and
- (c) Grants, contributions, and other transfers (including services in-kind)

It is unclear in which category non-exchange expenses such as taxes (other than income taxes), fines and penalties payable will fall and what the IPSASB's views are on recognising them. There are also other types of non-exchange expenses not currently dealt with in the consultation paper, such as debt forgiveness.

The IPSASB's Preliminary View 5 is that (a) and (b) should be recognised using the Extended Obligating Event Approach. Preliminary View 6 is that (c) should be recognised using the PSPOA. It is also unclear how (c) transactions should be recognised where the PSPOA cannot be applied, because the transaction does not have the characteristics required in the model.

We are of the view that the IPSASB should first consider if guidance is necessary for non-exchange expenses, and if so, to what extent. Guidance already exists in the conceptual framework and the

guidance that exists for exchange expenses, mostly through IPSASs dealing with statement of financial position items, could be applied to non-exchange expenses by analogy. If guidance is required, it may not be necessary to develop an IPSAS, but could be included in existing IPSASs.

3. Timing of guidance

The IASB has issued IFRS 15 on 28 May 2014 and it applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018.

Locally, challenges are being identified and questions are being asked about how the standard should be applied as entities are preparing to implement IFRS 15.

The IASB has furthermore issued IFRS 9 on *Financial Instruments* on 24 July 2014, with an effective date for annual periods beginning on or after 1 January 2018. There is a significant relationship between IFRS 15 and IFRS 9.

We are of the view that it would be appropriate for the IPSASB to allow sufficient time before finalising guidance on revenue to learn lessons from the private sector, specifically regarding the implementation of IFRS 15. As much as we agree that guidance should not be unnecessarily delayed, given the difficulties already expressed in the private sector with IFRS 15, it may be premature of the IPSASB to finalise and issue guidance that could have been improved if these lessons and possible improvements to IFRS 15 are taken into consideration.

4. Inclusion of application guidance and examples

Given the difficulties experienced by entities in practice to account for revenue and non-exchange expenses, we are of the view that it would assist if extensive application guidance and examples are included in any guidance developed as an outcome of this consultation paper.



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Reference: ATS/2017/OUT/0054(VVU6RX)

Subject: Exposure Draft Consultation Paper IPSAS 23: Accounting for Revenue and Non-Exchange Expenses

December 20, 2017

china Dear Mr. Stanford,

eu The ITER Organization (IO) is pleased to respond to IPSASB's Consultation Paper Accounting for
india Revenue and Non-Exchange Expenses (the 'CP').

japan We support IPSASB in its overall objective of creating a common standard for revenue from
korea exchange transactions and non-exchange transactions, and we believe that the work done by the
russia IPSASB to date as reflected in the consultation paper, if further developed and modified, would
usa form the basis for a clear and robust standard on revenue recognition and non-exchange expenses.

Our detailed responses to the invitation to comment questions are included in the boxes in the Appendix 1 and 2 to this letter.

About the ITER Organization (IO)

The purpose of the ITER Organization shall be to provide for and promote cooperation among its Members on the ITER Project, which is an international project that aims to demonstrate the scientific and technological feasibility of fusion energy for peaceful purposes, an essential feature of which would be achieving sustained fusion power generation.

The purpose, functions and other organizational aspects of the IO are set out in the 'Agreement on the Establishment of the ITER International Fusion Energy Organization for the Joint Implementation of the ITER Project' (the 'ITER Agreement', see **appendix 3 below**) which has been registered and published by the United Nations Secretary General pursuant to Article 102 of the Charter of the United Nations at the request of the Depositary (the Director-General of the International Atomic Energy Agency).

The agreement entered into force on 20th November 2007, after ratification, acceptance or approval by its Members being the European Union (represented by Euratom), Japan, the People's Republic of China, the Republic of India, the Republic of Korea, the Russian Federation and the United States of America.

The IO has therefore an international legal personality and provides and promotes cooperation on the ITER Project among its Members.

According to Article 3 of the ITER Agreement, the IO shall construct, operate, exploit and deactivate the ITER facilities, and encourage the exploitation of the ITER facilities by the laboratories, other institutions and personnel participating in the fusion energy research and development programmes of the Members.

For this purpose, the IO is building a "Tokamak" machine in the South of France. The construction of the infrastructure started in 2007 and its startup (defined as 'First Plasma') is expected by late 2025. The Operation Phase of the ITER Project would be for 20 years, according to the Common Understandings associated with the ITER Agreement. The EUR 8 billion IO's cash estimated cost for construction over more than 15 years only represent a third of the total costs. The rest is being delivered in kind by the Members. The ITER Project Specifications, which also include the technical objectives and operational requirements of the ITER Machine, are approved by the ITER Council, which is the Governing Body of the IO.

The resources of the IO are made available by the Members following their own specific legislative and budgetary processes. There is no recourse foreseen to refund or return such moneys in the manner foreseen in the case of private sector organizations.

They shall comprise as per article 8 of ITER agreement:

"a) contributions in kind, as referred to in the document "Value Estimates for ITER Phases of Construction, Operation, Deactivation and Decommissioning and Form of Party Contributions", comprising: i) specific components, equipment, materials and other goods and services in accordance with the agreed technical specifications and ii) staff seconded by the Members;
b) financial contributions to the budget of the ITER Organization by the Members (hereinafter 'contributions in cash'), as referred to in the document "Value Estimates for ITER Phases of Construction, Operation, Deactivation and Decommissioning and Form of Party Contributions";
c) additional resources received either in cash or in kind within limits and under terms approved by the Council.

The respective Members' contributions over the duration of this Agreement shall be as referred to in the documents "Value Estimates for ITER Phases of Construction, Operation, Deactivation and Decommissioning and Form of Party Contributions" and "Cost Sharing for all Phases of the ITER Project" and may be updated by unanimous decision of the Council.

The resources of the ITER Organization shall be solely used to promote the purpose and to exercise the functions of the ITER Organization in accordance with Articles 2 and 3 of the ITER Agreement. Each Member shall provide its contributions to the ITER Organization through an appropriate legal entity, hereinafter "the Domestic Agency" of that Member, except where otherwise agreed by the Council. The approval of the Council shall not be required for Members to provide cash contributions directly to the ITER Organization."

The IO prepares its annual financial statements in accordance with IPSAS and is sharing them online at the following address:

(https://www.iter.org/doc/www/content/com/Lists/list_items/Attachments/738/2016_ITER_FINANCIAL_REPORT.pdf).

Should you have any questions concerning our comments, please do not hesitate to contact me.

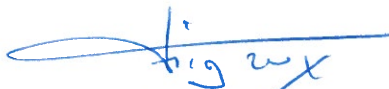
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Yours sincerely,



Lionel Rigaux
Accounting, Treasury
& Systems Section Leader

APPENDIX 1

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

The ITER Organization considers the distinction between revenue from non-exchange transaction and equity contribution from owners unclear. IPSASB should take the opportunity to provide more guidance on this important distinction.

ITER receives funding from its Members to construct the nuclear fusion machine. As the Members are both the "owners" of ITER Project and the future users of ITER's service potential (in the form of Intellectual Property as well as the future exploitation of the ITER facilities through its laboratories and other institutions), IPSAS 23 leaves room for multiple interpretations as to whether the contributions from the Members for constructing the ITER Machine (termed as "Construction Cost") qualifies as revenue from non-exchange transactions or equity contribution from owners.

We consider the date when the ITER Machine is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management (which is the date of completion of construction/commission/First Plasma) as the date when depreciation of ITER Machine will commence and amounts will be recognized as revenue for the balance period of operation.

Since the flow of economic benefits (in form of results of experiments made on constructed and commissioned ITER Machine) will start to be available to those who had invested in it in the form of cash and in-kind contribution, the amounts equal to depreciation over the period of experimentation/operation will be recognized as revenue in each of the years during this period.

Even though the objective is besides construction, operation as well as de-activation and decommissioning, for the purpose of accounting, we consider treating the Members contribution as deferred revenue only during the construction of the ITER Machine.

We expect the period of operation/experimentation to be 15-20 years in line with the provisions of the ITER Agreement and the mechanism for extension stipulated therein.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 - Identify the binding arrangement (paragraphs 4.29 - 4.35);

Specific to paragraph 4.32, we are of the view that the stipulations to return future economic benefits or service potential in the event the stipulation is breached needs to be broadened. This should thus take into account International agreement signed by sovereign Governments, where the stipulations are also conditions and the performance obligations are well defined considering the International context/recourse to law, as also impracticality to transfer the constructed asset itself between various signatories of the agreement. Similarly the return of economic benefits (in form of Intellectual Property (IP)) and also the results of experiments on the ITER facility to be shared as a stipulation have been defined in the agreement itself.

*Enforceability of such stipulations is also established in the agreement in terms of appointment of senior Management and key decisions controlled by the ITER Council. Continuance of senior Management, approval of budgets, approval of regulations, approval of cost sharing are some of the important duties/controls performed by the Governing Board, comprising of the Member's representatives, as well as approval of annual accounts and monitoring through external audits and management assessments as well as the mechanism of disputes resolutions. In case of ITER agreement, the ITER Council representing the Members is tasked with several responsibilities as defined in Article 6 clause 7 items a to z (**refer Appendix 3 below**). These include situations where the transferor of resources is able to take remedies in the event of non-fulfilment of performance obligations. The ranges of non-contractual mechanism outlined in an internationally binding agreement have been outlined above, and are prevalent in the international public sector environment. These may please be appropriately considered for inclusion.*

Step 2 - Identify the performance obligation (paragraphs 4.36 - 4.46);

The ITER Organization is created for a single objective and output is in form of a series of experiments and their results /IP to be available at the stage of operations upon generation of First Plasma. In the context of intergovernmental agreements the performance obligations are identified in the objectives of the Organization as stated in the ITER Agreement, article 2 purpose and article 3 functions of the Organization (refer Appendix 3 below).

We agree that it will be a bundle of services (as referred in 4.43 and 4.44 of CP) to be made available at the time of First Plasma and thereafter. Bundle of services in context of ITER would be a series of experiments that would be performed as economic outputs upon commencement of operation and that would be during a period of approximately 15 years.

Step 3 - Determine the consideration (paragraphs 4.47 - 4.50);

The ITER Organization agrees with IPSASB's preliminary view on Public Sector Performance Obligation Approach (PSPOA). Nevertheless, it would be appreciated to get a clarification on the wording "some linkage" on Step 3, article 4.49 and 4.50. In a long-lasting public construction project like ITER, we are of the view that the linkage can be made between the fulfillment of performance obligations (construction of the ITER Machine) and the consideration (time given to test and operate the Machine, once the construction is over). Thus only linkage possible in case of long gestation project such as ITER being constructed through international collaboration would be the period during which the amount of consideration that would be recognized as revenue during the period of operations when results in form of experiments would be made available as economic benefit to the Members.

*We would be happy to share our case and have it published accompanying the revised Standard as an illustrative example. We have summarized it under the **Appendix 2 below**.*

Step 4 - Allocate the consideration (paragraphs 4.51 - 4.54); and

Under the PSPOA, all expenditure incurred are to be allocated to a single objective in terms of ITER agreement for construction of the ITER Machine. The delivery, time and quality is specified and agreed as per cost and schedule baseline that is approved and updated by the ITER Members from time to time. We agree that as per clause 4.50 of the CP that the ITER agreement provides for an amendment of amount of consideration to arrive at the agreed performance obligations. Its article 8, as reproduced in our letter, provides for making available the resources by members for this performance obligations and the manner in which additional resources are to be made available to achieve the sole objective i.e. performance obligation as stated in article 2 and 3 of the agreement.

In our view the public sector adoption of the clause 4.54 may consider mentioning that where a bundle of service are to be made available as per performance obligation the amount of consideration and allocation must also foresee that the completion of the overall objective could also be the only single item for purpose of cost consideration and thereby its allocation.

Step 5 - Recognize revenue (paragraphs 4.55 - 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) - Require enhanced display/disclosure;
- (b) Option (c) - Classify time requirements as a condition;
- (c) Option (d) - Classify transfers with time requirements as other obligations; or
- (d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) - Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No

Please explain your reasons.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons.

The ITER Organization agrees with IPSASB's preliminary view that capital grants should be addressed explicitly within IPSAS. Currently, IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) deals with grants without making a distinction between capital grants and current (or operating) grants. As the nature of these grants is quite different, guidance from the IPSASB on how to take these differences into account would be helpful. In fact, this distinction is already made in other financial reporting frameworks and in the statistical bases:

- *IFRS: IAS 20 Government Grants*
- *Government Finance Statistics (GFS): current grants and capital grants (GFSM 2014, paragraph 5.103).*

It is IPSASB's stated policy to align its accounting standards with IFRS and GFS. In our opinion, IPSAS standards should therefore also distinguish between capital grants and current grants.

Specific Matter for Comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them.

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider? Please explain your issues and proposals.

The ITER Organization (IO) agrees with IPSASB that the main concern with regard to accounting for capital grants is the pattern of revenue recognition. The revenue recognition of capital grants in accordance with IPSAS 23 tends to follow a pattern that does not reflect the economic reality and is in many cases counterintuitive.

For a stipulation to be a condition under IPSAS 23 the grant has to be repayable up to the point at which the condition is fulfilled.

Conditions related to capital grants typically relate to the construction/acquisition of an asset and/or the subsequent use of the asset for the delivery of specified services. If the condition merely relates to the construction of the asset, it will be fulfilled at the time and to the extent that the grant is actually spent. However, if the condition relates to the subsequent use of the asset once construction has been finalized, the grant will have been spent long before the condition is met, making repayment in its original form (i.e. cash or in-kind components contributed in the case of the IO) an illusion.

In our view, the repayment should therefore not be the determining factor. Instead, our proposal is to replace the concept of a condition with a performance obligation along the lines of IFRS 15 which is somewhat similar to a condition, but does not relate to the repayment in its original form.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

(a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or

(b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or

(c) An alternative approach.

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

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

Specific Matter for Comment 7 {following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements? Please explain your reasons.

APPENDIX 2: Illustrative example

To illustrate our position, we will use the contributions that Members (China, EU, India, Japan, Korea, Russia and USA) provide to ITER to construct the nuclear fusion reactor (the “ITER Machine”).

As IO’s Members contributions (both in cash and in kind) are in the nature of non-exchange transactions, it is clear that the present and specific obligation (condition) tied to past and all future contributions of IO to construct, operate, deactivate and decommission the ITER Machine and carry out experiments on the fusion reactor has not been met during the 15-20 years construction period. All Members contributions are solely tied to the requirement that these are meant for the construction of the ITER Machine for which an agreement was reached and signed by the seven Members.

Although the agreement stipulates that the resources of IO shall be used solely to promote the purpose and to exercise the function of IO, this does not explicitly constitute a condition according to the substance-over-form principle in accordance with IPSAS 23, paragraphs 20-23 because the resources will not and cannot be returned to the Members in their original form once the money is spent or components used in the construction of the ITER Machine.

IPSAS 23 differentiates between conditions on transferred assets and restrictions on transferred assets; paragraph 19 indicates that gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained.

When the construction of the ITER Machine is completed, the IO is obliged to transfer the future economic benefits and service potential to its members and laboratories, other institutions and personnel participating in the fusion energy research and development programs of the Members.

Therefore, a liability, to the extent that the present obligations have not been met, is recognized in the form of deferred revenue. When the “performance” obligation will be met (from the start of operations supposed to last 15 years), a fraction (1/15) of the corresponding cumulated liability (deferred revenue) will be reduced yearly and simultaneously recognized as revenue (from the deferred revenue in terms of paragraph 44 and 45 of IPSAS 23).

It would therefore be helpful if IPSASB would adopt the concept of performance obligation along the lines of IFRS 15 rather than the concept of condition.

Example:

ITER Organization has been created in 2006. Its first construction budget was adopted for the financial year 2007 and is expected to last until 2025 (19 years; budget 25 billion euro).

Commissioning and Operation are foreseen from 2026 to 2040 (15 years).

During the Construction phase (i.e. over 19 years), the journal entries are at year end:

During the Construction phase (i.e. over 19 years), the journal entries are at year end:

Year 1

Statement of Financial Position			
Amounts in million Euro			
Asset		Liability	
ITER Machine	80	Deferred revenue(*)	100
Bank / Current Assets	20		
Total Asset	100	Total Liability	100
Net Assets/Equity			0

Year 2

Asset		Liability	
ITER Machine	180	Deferred revenue(*)	400
Bank / Current Assets	220		
Total Asset	400	Total Liability	400
Net Assets/Equity			0

...

Year 19

Asset		Liability	
ITER Machine	24,900	Deferred revenue(*)	25,000
Bank / Current Assets	100		
Total Asset	25,000	Total Liability	25,000
Net Assets/Equity			0

(*)Deferred revenue is being fed through in-cash and in-kind contributions from Members.

During the Operation phase (i.e. over 15 years), the journal entries are at year end:

Statement of Financial Performance			Statement of Financial Position			
			Amounts in million Euro			
Year 20	Expense	Revenue	Asset		Liability	
Yearly contribution		150	ITER Machine	24,900	Deferred Contribution	25,000
Write-back deferred revenue		1,660	Depreciation ITER Machine	(1,660)	Write Back deferred Revenue	(1,660)
Operating Expenses	140					
Depreciation Experimental Asset (24900/15)	1,660		Bank / Current Assets	110		
Total	1,800	1,810	Total Asset	23,350	Total Liability	23,340
Surplus		10	Net Assets/Equity			10

Year 21	Expense	Revenue	Asset		Liability	
Yearly contribution		200	ITER Machine	24,900	Deferred Contribution	25,000
Write-back deferred revenue		1,660	Depreciation ITER Machine	(3,320)	Write Back deferred Revenue	(3,320)
Operating Expenses	180					
Depreciation Experimental Asset (24900/15)	1,660		Bank / Current Assets	130		
Total	1,840	1,860	Total Asset	21,710	Total Liability	21,680
Surplus		20	Net Assets/Equity			30

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APPENDIX 3: Extracts from the ITER Agreement

<http://www.iaea.org/Publications/Documents/Infocircs/2007/infocirc702.pdf>

Article 2

Purpose of the ITER Organization

The purpose of the ITER Organization shall be to provide for and to promote cooperation among the Members referred to in Article 4 (hereinafter ‘the Members’) on the ITER Project, an international project that aims to demonstrate the scientific and technological feasibility of fusion energy for peaceful purposes, an essential feature of which would be achieving sustained fusion power generation.

Article 3

Functions of the ITER Organization

1. The ITER Organization shall:

- (a) construct, operate, exploit, and de-activate the ITER facilities in accordance with the technical objectives and the general design presented in the Final Report of the ITER Engineering Design Activities (ITER EDA Documentation Series No. 21) and such supplemental technical documents as may be adopted, as necessary, in accordance with this Agreement, and provide for the decommissioning of the ITER facilities;
- (b) encourage the exploitation of the ITER facilities by the laboratories, other institutions and personnel participating in the fusion energy research and development programmes of the Members;
- (c) promote public understanding and acceptance of fusion energy; and
- (d) undertake, in accordance with this Agreement, any other activities that are necessary to achieve its purpose.

2. In the performance of its functions, the ITER Organization shall give special regard to the maintenance of good relations with local communities.

Article 6, clause 7

7. The Council shall be responsible, in accordance with this Agreement, for the promotion, overall direction and supervision of the activities of the ITER Organization in pursuit of its purpose. The Council may take decisions and make recommendations on any questions, matters or issues in accordance with this Agreement. In particular, the Council shall:

- (a) decide on the appointment, replacement and extension of the term of office of the Director-General;
- (b) adopt and amend where necessary, on the proposal of the Director-General, the Staff Regulations and the Project Resource Management Regulations of the ITER Organization;
- (c) decide, on the proposal of the Director-General, the main management structure of the ITER Organization and complement of the Staff;
- (d) appoint senior Staff on the proposal of the Director-General;
- (e) appoint the Members of the Financial Audit Board as referred to in Article 17;

- (f) decide, in accordance with Article 18, on the terms of reference for the undertaking of an assessment of the management of the ITER Organization and appoint a Management Assessor for that purpose;
- (g) decide, on the proposal of the Director-General, the total budget for the various phases of the ITER Project and allowable ranges for adjustment for the purpose of the annual updates referred to in subparagraph (j), and approve the initial ITER Project Plan and Resource Estimates referred to in Article 9;
- (h) approve changes to the overall cost sharing;
- (i) approve, with the consent of the Members concerned, modifications to the procurement allocation without changing the overall cost sharing;
- (j) approve the annual updates of the ITER Project Plan and Resource Estimates and, correspondingly, approve the annual programme and adopt the annual budget of the ITER Organization;
- (k) approve the annual accounts of the ITER Organization;
- (l) adopt the annual reports;
- (m) adopt, as necessary, the supplemental technical documents referred to in Article 3(1)(a);
- (n) establish such subsidiary bodies of the Council as may be necessary;
- (o) approve the conclusion of agreements or arrangements for international cooperation in accordance with Article 19;
- (p) decide on acquisition, sale and mortgaging of land and other titles of real property;
- (q) adopt the rules on Intellectual Property management and the dissemination of information in accordance with Article 10 on the proposal of the Director-General;
- (r) approve, on the proposal of the Director-General, the details of setting up of Field Teams with consent of the Members concerned, in accordance with Article 13. The Council shall review, on a periodic basis, the continuation of any Field Teams established;
- (s) approve, on the proposal of the Director-General, agreements or arrangements governing relations between the ITER Organization and the Members or States on whose territory the Headquarters and Field Teams of the ITER Organization are located;
- (t) approve, on the proposal of the Director-General, efforts to promote collaboration among the relevant domestic fusion research programmes of the Members and between such programmes and the ITER Organization;
- (u) decide on the accession of States or international organizations to this Agreement in accordance with Article 23;
- (v) recommend to the Parties, in accordance with Article 28, amendments to this Agreement;
- (w) decide on the taking or granting of loans, provision of assurances and guarantees and furnishing collateral and security in respect thereto;
- (x) decide whether to propose material, equipment and technology for consideration by international export control for a inclusion on their control lists, and establish a policy supporting peaceful uses and non-proliferation in accordance with Article 20;
- (y) approve compensation arrangements referred to in Article 15; and
- (z) decide on waivers of immunity in accordance with Article 12(3) and have such other powers as may be necessary to fulfill the purpose and to carry out the functions of the ITER Organization, consistent with this Agreement.



NZ ACCOUNTING
STANDARDS
BOARD

12 January 2018

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CANADA
Submitted to: www.ifac.org

Dear John

Consultation Paper *Accounting for Revenue and Non-Exchange Expenses*

Thank you for the opportunity to comment on Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* (the CP). The CP was exposed for comment in New Zealand and some New Zealand constituents may have made comments directly to you.

The New Zealand Accounting Standards Board (NZASB) is pleased the IPSASB has made progress on the project for revenue and non-exchange expenses, both of which are important topics in the public sector and in our not-for-profit (NFP) sector which also applies IPSAS-based standards.

The NZASB has considered the CP and, while supportive of the overall project and some aspects of the proposals, is of the view that the CP has not adequately addressed a number of key issues.

The limited comment period and broad scope of the CP has meant that the NZASB has had to focus its comments on what it considers to be the most significant issues. Our comments focus on the proposed recognition approaches for revenue and non-exchange expenses. With respect to these issues, we have invested a considerable amount of resources and sought wider constituent feedback. Because of this, some of our responses on other matters are at a high level only. We would have preferred a comment period greater than five months so that we could have fully considered all the issues in the CP.

Our main comments are summarised below and are elaborated upon in Appendices 1 and 2. We would be happy to meet with you to discuss these comments further.

Revenue

- In order to develop our responses to the CP and provide our views on the treatment of various types of revenue transactions, we have developed a proposed framework for the recognition of revenue transactions in the public sector. This proposed framework distinguishes between revenue transactions with and without performance obligations,¹ rather than using the exchange or non-exchange distinction.
- We agree that revenue transactions with performance obligations should be accounted for using the Public Sector Performance Obligation Approach (PSPOA) as proposed in the CP, which is based on IFRS 15 *Revenue from Contracts with Customers* adapted for the public sector.
- We agree that revenue transactions with no performance obligations or stipulations should be accounted for under a residual revenue standard (or a residual section of the standard, if there is only one revenue standard). This residual standard would be based on the applicable parts of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, updated to address issues relating to these types of transactions.
- We do not agree with the CP's proposal to apply the PSPOA to revenue transactions with no performance obligations but with stipulations over use (including consumption based² and time-based stipulations). In our view, such unfulfilled stipulations do not give rise to a liability as defined in the Conceptual Framework (i.e. they do not require an outflow of resources to an external party) – the only “obligation” is for the entity to use the funds to acquire resources for itself, rather than to transfer goods or services to other parties. In other words, although the stipulations might be regarded as “obligations” in a broader sense, they are not the type of obligation referred to in the definition of a liability.³ Instead the revenue from these transactions should be recognised when the resource recipient has control of the resources transferred.

We have suggested two options for presenting information about revenue arising from these transactions which could highlight the existence of stipulations over the use of resources received and the timing of fulfilment of those stipulations. These options could help to resolve the problem of explaining the resource recipient's performance story, while also faithfully representing the resource recipient's financial position.

We consider that this approach is consistent with the definitions of elements in the Conceptual Framework.

¹ For the purpose of our proposed recognition framework, the NZASB considers that a revenue or expense transaction with performance obligations is one that involves an enforceable agreement between the resource provider and the resource recipient requiring the resource recipient to deliver goods or services either to the resource provider or to beneficiaries.

² Consumption-based stipulations arise when the resource provider agrees to transfer resources to the resource recipient with the stipulation that the resource recipient must use the resources as specified for its own operations, without imposing on the resource recipient an obligation for an outflow of resources to another party.

³ The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (Conceptual Framework), paragraph 5.14, defines a liability as “a present obligation of the entity for an outflow of resources that results from a past event”.

- A significant amount of work is still required by the IPSASB to consider a number of revenue transactions not covered in the CP such as revenue transactions without performance obligations, but with other forms of stipulations over use.

Non-exchange expenses

- The proposed approaches for the recognition of non-exchange expenses in the CP appear to have been developed based on applying the proposed CP revenue recognition approaches in reverse (a mirror approach). However, we consider that the recognition of non-exchange expenses from a resource provider perspective should encompass a distinct set of considerations and recognition issues in contrast to the recognition of revenue by the resource recipient.
- The CP does not fully address the accounting for all types of non-exchange expense transactions and the related recognition issues that arise in the public sector. Some types of transactions are not discussed, such as expense transactions with no performance obligations but with various types of stipulations. In our opinion, the analysis of those transactions discussed in the CP is insufficient, both in terms of the rationale provided and the consideration of alternative views.
- The CP's inadequate analysis of non-exchange expenses has compelled us to do a lot of thinking about the range of expenses in the public sector and the appropriate recognition approaches for various types of expenses. Similar to our proposed framework for the recognition of revenue, our proposed framework for the recognition of expenses is also based on a distinction between transactions that impose performance obligations on the resource recipient and those that do not.
- We do not agree with the discussion of universally accessible services and collective services in the CP. We consider that there are no significant conceptual differences between the types of transactions that would fall within the scope of Exposure Draft 63 *Social Benefits* and universally accessible services and collective services. In our opinion, the accounting for these expenses would require consideration of similar issues and should be consistent. We therefore encourage the IPSASB to consider how any decisions made in the development of standards-level requirements for social benefits would impact the development of an approach for recognising other expenses and liabilities arising from similar types of transactions, such as universally accessible services and collective services.
- We broadly agree with the PSPOA for expenses arising from transactions that impose performance obligations on the resource recipient. However, we do not support the use of an Extended Obligating Event Approach (EOEA) for other non-exchange expense transactions. We propose an alternative approach, which we refer to as the Obligating Event Approach (OEA).
- Under our proposed OEA, the first question to consider is when does an obligating event which leads to the recognition of a liability arise. The guidance on an obligating event can be drawn from the Conceptual Framework and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*. The second question to consider is when should a corresponding expense or asset be recognised. The expense would be recognised when the entity no longer has control over the resources transferred.

- We recommend that the IPSASB considers two options for presenting information about expenses arising from transactions when there are stipulations (but not performance obligations) imposed on the resource recipient. These two options are outlined in our detailed response. Whilst we have proposed the same options as for revenue transactions, we note that the rationale for applying either of these options to expense transactions is not necessarily the same.

These points, together with our proposed frameworks for the recognition of revenue and non-exchange expenses, are discussed in Appendix 1 to this letter. The responses to the Preliminary Views and Specific Matters for Comment are set out in Appendix 2 to this letter. If you have any queries or require clarification of any matters in this letter, please contact Aimy Luu Huynh (aimy.luuhuynh@xrb.govt.nz) or me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kimberley Crook', written in a cursive style.

Kimberley Crook
Chair – New Zealand Accounting Standards Board

APPENDIX 1 Overview of the NZASB's proposals

Revenue

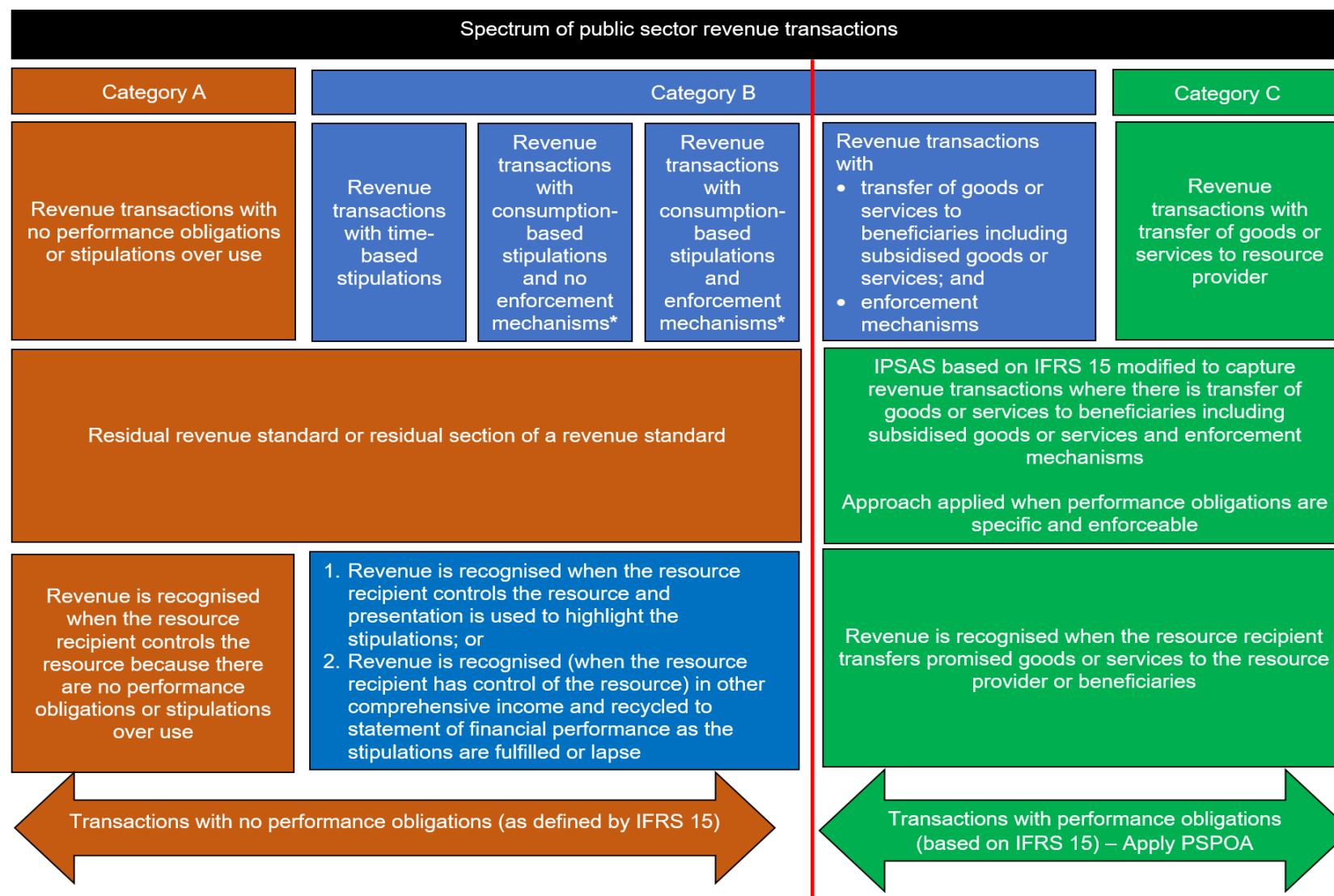
The New Zealand Accounting Standards Board (NZASB) has considered the proposed revenue recognition approaches in the Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* (the CP) and is of the view that these proposals do not fully capture all the revenue transactions that can occur in the public sector, nor do they address all the revenue issues identified in the CP. The CP focuses on revenue transactions with performance obligations, and revenue transactions without performance obligations but with time requirements. There are a number of revenue transactions without performance obligations but with other stipulations which the CP has not considered (for example, revenue transactions with consumption-based stipulations,⁴ such as grants to fund the salary costs of a resource recipient).

The NZASB has developed a proposed framework for revenue transactions in the public sector which distinguishes between revenue transactions with and without performance obligations, rather than using the exchange or non-exchange distinction.

Diagram 1 below provides an overview of the NZASB's proposed framework for revenue transactions in the public sector.

⁴ Consumption-based stipulations arise when the resource provider agrees to transfer resources with the stipulation that the resource recipient must use the resources as specified for its own operations, without imposing on the resource recipient an obligation for an outflow of resources to another party.

Diagram 1 NZASB's proposed framework for revenue recognition



* These categories include capital grants.

The CP has grouped revenue transactions into three categories (Categories A, B, and C) and used these three categories to discuss the proposed revenue recognition options. However, there is a wide spectrum of revenue transactions in the public sector with varying forms of performance obligations and stipulations; therefore, establishing clear boundaries for when different revenue recognition approaches apply would be important for drafting exposure drafts (EDs) and standards. The boundary for different revenue recognition approaches would largely depend on how far the concept of a “performance obligation” in IFRS 15 *Revenue from Contracts with Customers* is stretched to reflect the public sector context.

For revenue transactions with performance obligations (i.e. that is an enforceable agreement to deliver goods or services to an external party), our proposed framework is based on the Public Sector Performance Obligation Approach (PSPOA). It is therefore based on IFRS 15, adapted for the public sector context, and stretched to include as many revenue transactions as feasible, subject to maintaining consistency with the definition of a liability in *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework). We have also sought to ensure that those transactions within the scope of the PSPOA are the types of transactions to which the revenue recognition model in IFRS 15 should be applied.

A framework based on a distinction between transactions with and without performance obligations could result in fewer scope debates and more meaningful revenue recognition discussions, in contrast to the difficulties experienced applying the current exchange and non-exchange distinction.

We have explained our proposals for the three categories of revenue transactions in order of the Preliminary Views (PV) and Specific Matters for Comment (SMC) in the CP.

Category C

Transactions in our Category C are the same as proposed in the CP, being enforceable agreements with performance obligations to transfer goods or services to the resource provider. Therefore, we agree revenue transactions in Category C should be accounted for using the proposed PSPOA.

Category A

Transactions in our Category A are the same as proposed in the CP, being those with no performance obligations or stipulations. Under our proposed framework, these transactions would be accounted for in a residual revenue standard (or residual section of a revenue standard), based on the applicable parts of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* and updated to address practice issues relating to these types of transactions. These matters are discussed further in our responses to PV 2 and SMC 1.

Category B

There is a wide spectrum of revenue transactions in Category B. The scope of Category B transactions that could be accounted for using the PSPOA would depend on how the IPSASB defines key factors such as enforceability and performance obligations.

Our view of performance obligations requires the transfer of resources to an external party in an enforceable and sufficiently specific agreement. This is not the same as IPSAS 23’s broad notion of a

performance obligation, being a duty to act or perform in a certain way. Our proposed framework is based on the definition of a liability in the Conceptual Framework, whereby for a liability to exist, the obligation must require an outflow of resources (as explained further below). Hence, our proposed framework would remove the current distinction between conditions and restrictions as such a distinction would not be relevant, and in our view, is not helpful. In addition to the issues experienced with the exchange or non-exchange distinction, our constituents have also experienced issues with classifying stipulations as either conditions or restrictions.

Under our proposed framework, arrangements with consumption-based stipulations, either with or without return conditions (and/or other enforcement mechanisms), would not result in a deferral of revenue as using resources internally does not involve an outflow of resources. In other words, a deferral of revenue would arise if there is an enforceable and specific agreement to transfer goods or services to external parties, including beneficiaries, i.e. there are performance obligations as defined under the PSPOA. Thus, revenue would be deferred only if there is an obligation that satisfies the definition of a liability. We elaborate further on this point below.

Transactions currently within the scope of IPSAS 23

We have identified transactions which currently fall within the scope of IPSAS 23 that should be accounted for using the PSPOA if they have performance obligations and the following characteristics.

- Enforcement mechanisms

We agree with the CP's view that the concept of enforceability in a binding arrangement would need to go beyond the existence of a return obligation and include other enforcement mechanisms where the transferor has access to remedies in the event of non-fulfilment of a performance obligation. An enforceable binding arrangement can be enforced through legal or equivalent means.

Therefore, some transactions with no explicit return condition, but which have other enforcement mechanisms, should be accounted for under the PSPOA. We comment further on this point in our response to PV 1.

- Transfer of goods or services to beneficiaries

One interpretation of the definition of exchange and non-exchange transactions in the current IPSAS literature is that where the transfer of goods or services is to a beneficiary (rather than the resource provider), the transaction is a non-exchange transaction. Those who take this view argue that there is no exchange of approximately equal value between the resource recipient and the resource provider.

Consistent with our earlier comments about the definition of a liability, it should not matter whether the resource recipient is required to transfer goods or services directly to the resource provider or to beneficiaries – either way, there is a transfer of resources to an external party. We consider that the PSPOA should capture revenue transactions arising from three party arrangements (resource provider, resource recipient and resource beneficiary).

Therefore, we agree with the CP that revenue transactions in Category B where the goods or services are transferred to beneficiaries should be accounted for using the PSPOA.

- Subsidised goods or services

Consistent with our earlier comments about the definition of a liability, it should not matter whether the arrangement involves the transfer of goods or services at a subsidised price – irrespective of whether a price subsidy exists, a performance obligation exists when the resource recipient is obliged to transfer goods or services to an external party.

Therefore, transactions that transfer goods or services to beneficiaries with a subsidy or on a cost-recovery basis should be accounted for under the PSPOA.

Other issues for consideration

There is a range of issues that would need to be addressed in developing the PSPOA. These are discussed in our responses to PV 1 and SMC 2.

Transactions with consumption-based stipulations and enforcement mechanisms

The NZASB is aware of the different views on the appropriate recognition of revenue for transactions with consumption-based stipulations with return obligations and/or other enforcement mechanisms. We considered whether a broader notion of “performance obligation” should be applied (similar to the IPSAS 23 notion of performance obligation, as noted above). For this category of transactions, the resource recipient has specific and enforceable obligations to use the resources in the manner specified. However, satisfying those “obligations” does not result in an outflow of resources as the funds received would be spent on acquiring resources for the entity itself, rather than transferring goods or services to other external parties, so in our view a liability does not exist.

Our thinking can be explained using an example whereby a medical practice receives funding for the salary of its office manager. The office manager carries out administrative duties and provides support services to the medical practice. The office manager is therefore only indirectly involved in the provision of the health services to the patients. The funding of the office manager’s salary does not impose an obligation on the entity to transfer resources to an external party, so in our view a liability does not exist. Rather, the stipulation on how the resources must be used requires the resource recipient (the medical practice) to exchange one type of resource (the funds received from the resource provider) for another type of resource (employee services), i.e. an exchange of assets.

In reaching this conclusion, we considered the argument that although the resource provider is funding the inputs of the resource recipient rather than its outputs, the only reason for funding those inputs is so that the resource recipient can deliver the outputs. It could be argued that, in effect, the resource provider is funding the delivery of goods or services, similar to transactions in which the resource provider directly funds the delivery of those goods or services. However, we note that this argument also could be applied to other forms of funding, including funding which is not subject to specific stipulations, as ultimately all funding provided to public sector entities is intended for the purpose of enabling the resource recipient to deliver goods or services to beneficiaries. If followed to its logical conclusion, this argument would mean that all funding received would be

recorded as a liability until ultimately spent or consumed in the delivery of goods or services, which we do not believe is appropriate.

We also considered an argument based on “substance over form” and principal versus agent considerations. It could be argued that, in substance, the resource provider’s intention was for the resource recipient to receive the specified non-financial resource (i.e. employee services, in the earlier example of funding for the office manager’s salary) and that the resource recipient has received a financial resource (i.e. the funding) as an agent for the resource provider (principal). Under this argument the resource recipient could be regarded as holding the financial resources received on behalf of the resource provider. It could be argued that a liability exists until the resource recipient has satisfied the agreed stipulations over use by spending those financial resources on acquiring the specified non-financial resources (employee services). Under this argument, revenue is recognised when the non-financial resources are acquired, as would occur if the resource provider had directly provided those non-financial resources (e.g. if the resource provider had instead contributed the time of its own employee to the resource recipient). In other words, this argument treats the arrangement as being, in substance, a contribution of non-financial (rather than financial) resources to the resource recipient, with the earlier receipt of those financial resources viewed as being received in an agency capacity. However, in considering this argument, we note that the resource recipient gains control over resources when it receives the funding and that the only “obligation” on the entity is to exchange one type of resource (the funding) for another type of resource (the employee services), i.e. an exchange of assets, as noted earlier. Therefore, while we understand the argument, we concluded that such arrangements do not create obligations that meet the definition of a liability. Put another way, we believe the “substance” of the arrangement is the contribution of a financial resource with a restricted use, rather than the contribution of a non-financial resource with earlier receipt of the financial resource being received in an agency capacity.

We acknowledge that the Conceptual Framework’s discussion of “other obligations” could be applicable for this category of transactions. Although, in our view, these transactions do not impose obligations on the resource recipient that meet the definition of a liability, the existence of enforceable stipulations over the use of the funding could be considered “obligations” in the broader sense. Even though the liability definition is not satisfied, some might argue that this category of transactions is sufficiently similar to the category of transactions with performance obligations (i.e. in which a liability does exist) to justify the deferral of revenue recognition for unsatisfied stipulations under the “other obligations” approach. We also acknowledge the challenges for resource recipients in telling their performance story if revenue is recognised before the spending which satisfies those stipulations occurs. However, we concluded that it is not appropriate to defer revenue and report either a liability or “other obligation” in the statement of financial position when no liability exists, as that does not faithfully represent the resource recipient’s financial position.

For this reason, we recommend exploring the presentation and OCI options (discussed below) to provide further information about revenue arising from transactions that impose stipulations (but not performance obligations) on the resource recipient, as proposed under our framework. In our view, these options could help to resolve the problem of explaining the resource recipient’s performance story, while also faithfully representing the resource recipient’s financial position.

Transactions with consumption-based stipulations and no enforcement mechanisms

We consider transactions with consumption-based stipulations (i.e. stipulations on the use of the funds), but without return obligations or other enforcement mechanisms, to be substantially the same as transactions with a time requirement (discussed below) – there may be a restriction on how the funds are spent but there is no obligation to transfer resources to an external party (so no liability exists). However, the existence of the stipulation results in similar issues as for transactions with time-based stipulations, and hence a similar accounting treatment should apply.

Transactions with time-based stipulations

For revenue transactions with no performance obligations or stipulations over use, other than time requirements, the restrictions as to when the funds must be used does not impose an obligation on the entity to transfer resources to an external party, so no liability exists. Also, as discussed above in the context of other transactions with consumption-based stipulations and in our response to SMC 3, we do not support an approach that would treat these stipulations as “other obligations” in the statement of financial position.

Presentation of revenue arising from transactions with stipulations

We are aware that the upfront recognition of revenue in transactions with stipulations can make it difficult for entities to explain what they consider to be their performance story. We have therefore considered two options that could be used to provide more detailed information about revenue arising from transactions with stipulations (but not performance obligations), including transactions with time-based stipulations. We explain these two options below. Later, we provide our views on our preferred option.

1. Presentation

This option is the same as Approach 1 “The Exchange/Non-Exchange – Update IPSAS 23”, option (b) proposed in the CP. Revenue is recognised when resources are received or receivable, but with enhanced presentation to highlight the stipulations over use: the stipulations could be about when, or how, the funds must be used. This option stays true to the definitions of elements in the Conceptual Framework and gives the resource recipient a method of communicating its performance story to the users of its financial statements. This option would help to educate users to focus not only on the surplus or deficit (the “bottom line”) but to also look at what makes up the surplus or deficit.

If this option is adopted, we recommend the IPSASB develops guidance on how to determine when the fulfilment of the stipulations has occurred. For example, for transactions with time requirements, the stipulation could be treated as being met on a straight-line basis over the specified period of time or only at the end of that time period (i.e. when the time stipulation has lapsed).

We have provided additional comments on how this presentation option could be applied in our response to SMC 3.

2. Other comprehensive income

This option is an extension of Approach 1, option (e) proposed in the CP. It would require the IPSASB to develop principles for presenting revenue and expenses outside of surplus or deficit, similar to the presentation of other comprehensive income (OCI) in IFRS® Standards (for the reasons explained below). This option would be appropriate only for transactions where there are resources with clear stipulations imposed by the resource provider. This is because the stipulations would need to be sufficiently clear to enable the resource recipient to determine when the stipulation has been fulfilled or has lapsed. Also, we do not consider it appropriate to apply this approach to self-imposed stipulations on the use of funds.

On initial recognition, the resource recipient would recognise the inflow of resources in the OCI section within the statement of financial performance and then take those resources to a separate reserve within net assets/equity. As the stipulations are fulfilled, the amount initially reported in OCI would be recycled to revenue in surplus or deficit.

Under the OCI option (as with the presentation option), it will be important to provide guidance on determining when the resource recipient has satisfied the agreed stipulations, to allow OCI to be recycled to surplus or deficit in the appropriate reporting period. For consumption-based stipulations, OCI could be recycled based on when the resource recipient has used the funding in the manner specified. For time-based stipulations, OCI could be recycled using a straight-line basis over the specified time period or at the end of that period (i.e. when the time stipulation has lapsed).

Our suite of Public Benefit Entity (PBE) Standards already has the concept of OCI, which we refer to as “other comprehensive revenue and expense”. Before introducing our suite of PBE Standards based on IPSAS, our public sector entities had previously applied New Zealand equivalents to IFRS Standards, including the concept of OCI, and this concept was carried forward into our suite of PBE Standards.

This option keeps the items recognised in the statement of financial position consistent with the definitions of elements in the Conceptual Framework. The resources would still be recognised in the statement of financial performance when received or receivable but through a separate OCI or equivalent section.

This option overcomes the strict principle in IPSAS 23, which does not permit revenue from the receipt of resources with no conditions to be recognised at the time when the stipulations are fulfilled or lapse. This option acknowledges the ongoing existence of stipulations on resources in the statement of financial performance. It is more likely to result in revenue being included in surplus or deficit in the same periods as those in which the resources are used.

This option would work only if the IPSASB introduces OCI into the IPSAS literature and mandates the presentation of a statement of other comprehensive income or an equivalent presentation approach (i.e. if this approach were adopted, it should apply to all instances in which revenue or expenses are recognised directly in net assets/equity under current IPSAS literature, such as when accounting for cash flow hedges in accordance with the standards for financial instruments). This option would not work if the resources were recognised directly in

net assets/equity. If the resources were recognised directly in net assets/equity, this would be less transparent and potentially misleading, as it would present a message that the resource recipient has not benefited from receiving the resources, which would not reflect the substance of the transaction.

Whilst we consider it important that the presentation of a statement of comprehensive income is mandatory, we consider that application of the OCI accounting treatment for the recognition of revenue for this category of transactions should be optional for entities receiving this type of funding. This could be either an accounting policy choice or applied on a transaction-by-transaction basis. The resource recipient could choose to apply this accounting treatment if the benefits outweigh the costs. Although we recognise that, because of the potential impact on comparability, providing such entities with an accounting treatment option is not ideal from a standard-setting perspective, we could see some analogies with cash flow hedge accounting in IFRS Standards. In both cases:

- the objective of the OCI accounting treatment is to address an accounting recognition mismatch between one transaction and another closely related transaction, and thereby provide users of the financial statements with a clearer and more complete picture of the entity's financial performance; and
- because the accounting treatment could be costly for preparers to apply, preparers have the option to apply the treatment only when the benefits are expected to exceed the costs.

With respect to the importance of considering costs and benefits, we have received feedback from some constituents about the importance of ensuring that the accounting for revenue transactions with stipulations is simple for preparers to apply. We note that some resource recipients are not significantly impacted by any mismatch between the timing of when funding is received and when it is used as specified by the resource provider. For these entities, application of an OCI accounting treatment would introduce additional complexity without necessarily providing significant benefits to users of their financial statements. By making application of an OCI accounting treatment optional, we expect that individual entities would consider whether the benefits would outweigh the costs, similar to cash flow hedge accounting.

In considering this OCI accounting treatment, we thought about transactions in which the resource recipient is required to use the funds received for the acquisition or construction of property, plant or equipment (i.e. capital grants), including situations in which there is an ongoing or permanent restriction on the use of these assets, such as land that must continue to be used for a purpose specified by the resource provider. Under this OCI option, the resources received for the acquisition or construction of assets would be recognised in OCI initially and subsequently recycled to surplus or deficit as they are spent on acquiring or constructing the specified asset. We consider that the stipulations on resources provided for the acquisition or construction of assets are largely fulfilled when the resources are spent in the manner specified by the resource provider. We consider that the ongoing requirement to use the asset for the specified purpose to be in the nature of a restriction on assets, which should be disclosed in the notes to the financial statements.

Our preference on whether to use the presentation option or OCI option

In suggesting that the IPSASB considers both the presentation option and the OCI option, the NZASB notes that there are issues in practice in providing users of financial statements with a clear picture of the resource recipient's performance for a particular period in situations in which the entity has received funding with stipulations attached in one period but satisfied those stipulations in a different period. Hence, the NZASB considered how to present revenue arising from such funding in a way that assists the resource recipient in telling its performance story, but without creating new problems associated with deferring revenue in the statement of financial position when no liability exists.

The majority of NZASB members prefer the presentation option, with a minority preferring the OCI option. In addition, some NZASB members that prefer the presentation option would also accept the OCI option if there are significant difficulties in developing the presentation option.

Non-exchange expenses

Introduction

The NZASB has considered the CP's proposed approaches for the recognition of non-exchange expenses and is of the view the proposals do not fully address the accounting for all types of non-exchange expense transactions and the related recognition issues that arise in the public sector. Some types of non-exchange expenses transactions are not discussed. In our opinion, the analysis of those transactions discussed in the CP is insufficient, both in terms of the rationale provided and the consideration of alternative approaches.

We first explain our concerns with the proposals in the CP and then our proposed approach.

The proposed approaches for the recognition of non-exchange expenses in the CP appear to have been developed based on applying the proposed CP revenue recognition approaches in reverse (a mirror approach). We note the IPSASB is of the view that it is important for the approach in a non-exchange expense standard for grants, contributions, and other transfers to mirror the approach adopted for an equivalent revenue transaction.⁵

Although we agree that it is important to be consistent when dealing with similar accounting issues (which we comment on further later), that does not mean that a conclusion reached in one context applies in a different context.

The recognition of non-exchange expenses from a resource provider context should encompass a distinct set of considerations and recognition issues in contrast to the recognition of revenue by the resource recipient. The key issues discussed in the CP relating to the recognition of revenue are primarily concerned with determining when revenue should be recognised, once it has already been established that the resource recipient has received, or is entitled to receive, the funding concerned. In contrast, the key issues relating to the recognition of non-exchange expenses are primarily concerned with determining when the resource provider has incurred a liability to transfer resources to another party, which involves identifying when the resource provider has a present obligation arising from a past event. Furthermore, it cannot be assumed that the pattern of revenue recognition by the resource recipient should mirror the pattern of expense recognition by the resource provider.

We therefore consider that applying a mirror approach is not an appropriate starting point for developing a framework for non-exchange expense recognition. Nevertheless, once an approach for non-exchange expense recognition has been developed from the context of the resource provider, in our view it would be useful for the IPSASB to consider whether there is consistency between the proposed revenue and non-exchange expense recognition approaches. This ensures that any differences in outcomes can be explained and reflect the different circumstances in each case, rather than any inconsistency in the conceptual rationale for conclusions reached on similar or related issues. The differences in recognition outcomes are also important for consolidation purposes when the group has both the resource provider and resource recipient. The resource provider may have recognised the expense and liability but the resource recipient may not have recognised the

⁵ Paragraph 6.42 of the CP

corresponding revenue and asset. If the IPSASB develops technically robust revenue and non-exchange expense recognition approaches, the differences would be justifiable from a conceptual basis.

We also note that the CP discussion on the recognition of non-exchange expenses in relation to transactions with no performance obligations focuses mainly on the accounting for universally accessible services and collective services. It is not clear how the CP proposes to account for other non-exchange expense transactions in which the resource provider has imposed stipulations (but no performance obligations), such as stipulations on when the funding must be spent (time restrictions) or other restrictions or conditions over use.

In addition, other than a brief reference in paragraph 6.40 of the CP, that the delivery of universally accessible services and collective services may involve a number of exchange transactions, the CP has not discussed the various stages of implementing a programme of delivering services to the public. This has made it difficult for the NZASB to assess when the obligating event arises and to whom the obligation arises, under the proposed recognition approaches in the CP.

Furthermore, we note PV 7 states that the IPSASB is of the view that a PSPOA for non-exchange expense transactions should be applied to grants, contributions and other transfers which contain either performance obligations or stipulations. There is limited discussion on why the IPSASB considers that a PSPOA is appropriate for non-exchange expense transactions with stipulations over use but no performance obligations, and how a PSPOA would be applied to these transactions with no performance obligations.

We consider that additional standards-level requirements are needed to provide guidance on determining when the obligating event that leads to liability and expense recognition arises for the wide range of non-exchange expense transactions that occur in the public sector.

For these reasons, and others as discussed below and in our response to SMCs and PVs, we feel that further analysis and discussion of a range of issues relating to non-exchange expense recognition is necessary to develop guidance on these matters.

NZASB's proposed framework for expense recognition

The NZASB has developed a proposed framework for the recognition of various types of expenses in the public sector that appear to be in the scope of the CP.

Under this proposed framework for expense recognition, we do not support the development of a standard for non-exchange expenses only. This would result in the creation of an arbitrary distinction between exchange and non-exchange expenses, which already has been problematic in the context of revenue. Instead, we suggest the IPSASB considers developing a simplified PSPOA for all expense transactions with performance obligations, excluding expense transactions that already have specific standard-level requirements.⁶

Similar to our proposed approach for revenue recognition, our proposed framework for expense recognition is primarily based on the distinction between those expense transactions where the

⁶ For example, IPSAS 13 *Leases* and IPSAS 39 *Employee Benefits*

resource provider imposes on the resource recipient performance obligations and those without performance obligations.

The NZASB's proposed framework for expense recognition is based on two broad categories of transactions:

- (a) For all transactions where the resource provider imposes performance obligations⁷ on the resource recipient, we propose applying a PSPOA to expenses (simplified).

We do not envisage that a full five-step recognition model, as proposed under the PSPOA for revenue, is required for expense recognition. Instead we propose a simplified approach based on the recognition of expenses when the specified goods or services are transferred to the agreed beneficiaries.

- (b) For other expense transactions, we propose that the IPSASB develop an expense recognition approach based on the Conceptual Framework's definition of a liability and the principles and guidance in IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* to determine when the obligating event arises in different circumstances. Henceforth, we refer to this approach as the "Obligating Event Approach" (OEA).

Under this approach, expenses would be recognised when the obligating event arises (i.e. when the definition of a liability is met). In certain circumstances, the timing of expense recognition would be impacted by whether a payment is made before or after an obligating event has occurred. Expenses may be recognised earlier when prepaid (when the resource provider no longer has control over the resources transferred).

Key differences in proposed framework for non-exchange expense recognition

The CP has proposed an Extended Obligating Event Approach (EOEA) for all non-exchange expense transactions (excluding social benefits) with no performance obligations or stipulations, and a PSPOA for all other transactions with performance obligations or stipulations.

In contrast, the NZASB's framework proposes an OEA – without any "extension" (as explained further below) – for all expense transactions (excluding social benefits) with no performance obligations, and a PSPOA for all other expense transactions involving an outflow of resources in situations where there are performance obligations imposed on the resource recipient.

NZASB's proposed Obligating Event Approach

The OEA is proposed by the NZASB as an alternative to the EOEA described in PV 5 of the CP. The OEA is an approach for expense recognition based on the Conceptual Framework's definition of a liability, and further guidance in IPSAS 19 for obligations of uncertain timing or amount at the reporting date.

Under the OEA, a liability and corresponding expense is recognised when the obligating event arises. The key determinant for liability and expense recognition is whether there is an obligating event –

⁷ Transactions involving an outflow of resources from the resource provider and impose on the resource recipient one or more obligations to transfer goods or services, either to the resource provider or to beneficiaries. As discussed in our proposed framework for revenue recognition, these obligations need to be enforceable and sufficiently specific to represent performance obligations.

that is an event that creates a legal obligation or non-legally binding obligation that results in the resource provider having no realistic alternative to avoid settling that obligation.

The EOEAs proposed by the CP also include the concept of a liability in the Conceptual Framework and include consideration of when the obligating event arises. However, the key determinant for liability and expense recognition under this approach is based on whether the resource provider retains control of the resources transferred. This approach is based on IPSAS 23 in reverse, with the recognition of an asset (rather than an expense) based on whether the resource recipient is required to satisfy any stipulations in the form of restrictions over use or conditions requiring the return of the resources.

The NZASB does not support the use of an EOEAs because it:

- (a) uses a model developed for revenue rather than expenses;
- (b) requires the retention of the exchange or non-exchange distinction. Consistent with our proposed revenue recognition approach, we also propose moving away from this distinction for expenses;
- (c) requires judgement to determine if a stipulation is a condition or a restriction, which may lead to the recognition of an asset rather than an expense when resources are transferred to a resource recipient. As noted earlier, our constituents have also experienced issues with this classification; and
- (d) is not based on a robust rationale for why the existence of conditions not yet fulfilled leads to the conclusion that an asset exists from the perspective of the resource provider when resources have been transferred to the resource recipient.

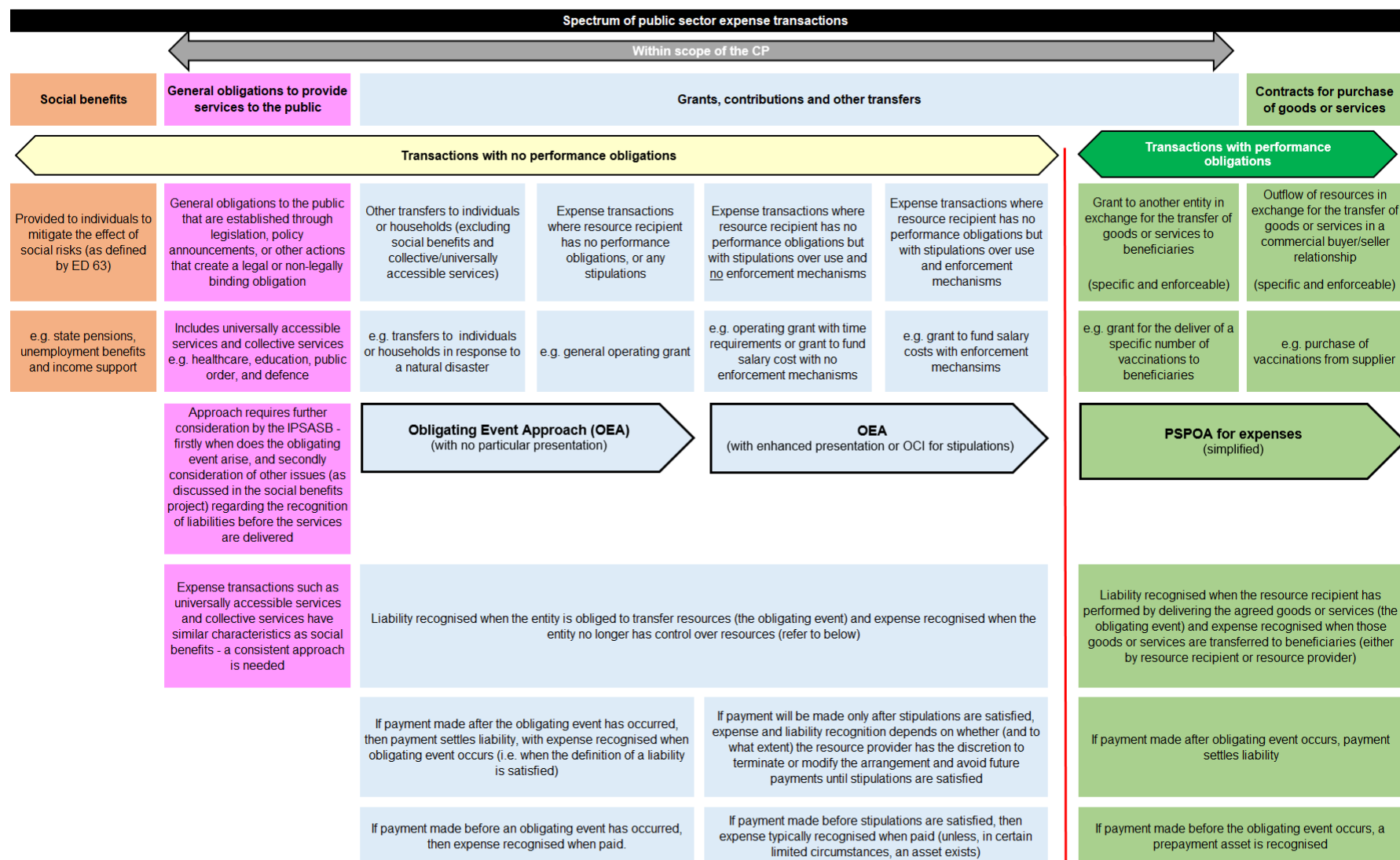
The alternative OEA proposed by the NZASB does not focus on whether the resource recipient has unfulfilled restrictions or conditions, because typically the fulfilment of these stipulations would be outside the control of the resource provider. For example, if the resource provider has already transferred the funding to the resource recipient, the existence of an unsatisfied condition does not mean that the resource provider has an asset equal to the amount of funds transferred. We therefore disagree with the IPSASB's conclusion and rationale in paragraphs 6.20 and 6.21 that the resource provider has control over the resources already transferred. The enforceable right to require the return of those resources, if and when a condition is breached, may give rise to an asset but not for the same amount as the resources transferred. For example, if the possibility of a breach is small, any asset recognised would be for a small amount only.

The NZASB considers that an OEA developed from the context of the resource provider is a better starting point for developing an approach for liability and expense recognition. The OEA does not attempt to mirror a revenue recognition approach, but instead is an approach developed from the context of the reporting entity, the resource provider.

NZASB's proposed framework for recognition of expense transactions in the public sector

Diagram 2 below provides an overview of the NZASB's proposed framework for the recognition of expense transactions in the public sector. Further details of our proposed framework are provided after diagram 2.

Diagram 2 NZASB's proposed framework for expense recognition



Further explanation of the NZASB's proposed framework for expense recognition

Social benefits and general obligations to provide services to the public

We note that the scope of the CP specifically excludes the accounting for social benefit expense transactions. The IPSASB currently has a separate project considering the accounting for social benefits, with Exposure Draft 63 *Social Benefits* currently open for comment.

The accounting for social benefit expense transactions as proposed by ED 63 has been included in diagram 2 for completeness. The NZASB has yet to commence deliberations on the proposals in ED 63. We are currently considering our response to the scope of the ED as well as the proposals in the ED.

For the purpose of this comment letter, the NZASB considers that the determination of an obligating event for social benefit schemes is not substantively different from the determination of an obligating event for general obligations to provide services to the public, including collective services and universally accessible services as defined in the CP.

For these general obligations to provide services to the public, similar issues arise as are being considered in the IPSASB's project on social benefits. In many cases, the beneficiaries of these services have existing rights that have been established through legislation, policy announcements, or other government actions. For example, in New Zealand, the Government's obligations to provide universal superannuation to beneficiaries over 65 (a social benefit) and to provide free education for children aged between 5 and 19 (a universally accessible service), are both established through legislation. In our view, there is no substantive difference between obligations for benefits to be provided in the form of money (e.g. national superannuation) or in the form of services (e.g. education services). Accordingly, issues being discussed in the project on social benefits relating to determining the point when (and the extent to which) the government concerned has a present obligation to provide those benefits also arise in the context of universally accessible services and collective services.

Therefore, the NZASB considers that where expense transactions such as social benefits, collective services and universally accessible services have similar characteristics, a consistent approach for liability and expense recognition is required. We therefore encourage the IPSASB to consider how any decisions made in the development of standards-level requirements for social benefits would impact the development of an approach for recognising other expenses and liabilities arising from similar types of transactions, such as collective services and universally accessible services.

Furthermore, in our view, the IPSASB's conclusion in paragraph 6.38 that there is no obligation prior to the delivery of services is not based on a sound rationale, as the rationale provided appears to mix the issue of measurement of a liability with the existence of a liability – the fact that a government might be able to vary the level of services provided could impact on *the extent* of its obligation to beneficiaries, but it does not follow that *no* obligation exists. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability.⁸

⁸ Paragraph 5.22 of the Conceptual Framework

Nevertheless, we appreciate that an alternative conclusion that a liability arises at an earlier point has potentially significant consequences. It raises issues similar to those discussed under the social benefits projects – for example:

- (a) the usefulness of the financial statements if large liabilities are recognised for obligations to deliver future ongoing services to the public;
- (b) public sector entities are often obligated to provide services to the public in future periods, based on the expectation that the funding will be obtained from the public substantially in future periods and, under current accounting standards, an entity would not recognise an asset for the right to collect future taxes; and
- (c) accounting for executory contracts – some argue that the government’s right to collect future taxes from which it will meet its obligations to provide social benefits, and other services that are part of the ongoing activities of the government, are akin to an executory contract with its citizens.

Other transfers to individuals or households

We note the CP focuses mainly on the accounting for universally accessible services and collective services when discussing liability and expense recognition arising from obligations to provide resources to the public.

Public sector entities have a wide range of other obligations to the public that relate to specific government programmes, such as the provision of relief to affected individuals or households in the event of a natural disaster. In certain circumstances, a present obligation could exist before the resource recipient has transferred resources to the beneficiaries concerned or engaged a supplier or another entity to deliver the services. For example, in implementing a programme of services to the public, there are various points in time to consider when a present obligation may arise:

- (a) public expectations established from past practices of the public sector entity, creating a constructive obligation;
- (b) making a political promise such as an electoral promise;
- (c) announcement of a policy;
- (d) passing of legislation (if applicable) to implement the policy;
- (e) approval of the budget or communication of budget appropriations; or
- (f) when the budget becomes effective.

The early stages of implementing public policy are unlikely to give rise to present obligations that meet the definition of a liability, because there is greater ability to avoid the outflow of resources. Later stages, especially when any eligibility criteria or stipulations are met, are more likely to give rise to present obligations that meet the definition of a liability, because there is less ability to avoid the outflow of resources.

In our view, the definition of a liability in the Conceptual Framework and the guidance in IPSAS 19 can be applied in determining when a liability (and corresponding expense) arises for other

obligations to provide resources to individuals or households that are not defined as social benefits, collective services or universally accessible services.

We note the CP does not fully address the accounting for these other non-exchange expense transactions that arise for other obligations to provide resources to individuals or households. We encourage the IPSASB to complete further analysis for this category of non-exchange expenses.

Grants, contributions and transfers to other entities — no performance obligations or stipulations

When an obligation requires an outflow of resources from the resource provider, for which the resource recipient is not required to satisfy any performance obligations or stipulations, the liability and expense would be recognised immediately when the obligating event occurs.

When payment occurs either before or after the obligating event, then the Conceptual Framework's definition of a liability and asset should be considered to determine when the expense should be recognised.

Payment after an obligating event has occurred

If payment is made after an obligating event has occurred, then the liability and expense is recognised when the obligating event occurs (i.e. when the definition of a liability is satisfied). In these circumstances, the payment of the obligation would result in a reduction (i.e. settlement) of the liability already recognised.

Payment before an obligating event has occurred

If payment is made before an obligating event has occurred, then the expense is recognised at the point of payment. In these circumstances, the resource provider no longer has control of the resources transferred when paid, because there are no performance obligations or stipulations and, therefore, the resource provider does not have an enforceable right to require the resource recipient to return the resources (i.e. the prepayment does not satisfy the definition of an asset).

This situation may occur when a grant, contribution or transfer is approved by the resource provider and paid without notifying the resource recipient before the payment is made. For example, suppose a potential grant recipient applies for a discretionary grant, which the resource provider later approves and makes payment at the same time as notifying the recipient that the grant has been approved. In these circumstances, the payment and the obligating event would occur simultaneously.

Grants, contributions and transfers to other entities — no performance obligations but with stipulations and no enforcement mechanisms

When an obligation requires an outflow of resources from the resource provider, for which the resource recipient is not required to satisfy any performance obligations, but there are stipulations over use, we propose that an OEA be applied. Under this approach the liability and expense would be recognised immediately when the obligating event occurs.

We note that the CP proposes a PSPOA for these non-exchange expenses. We do not consider that this is appropriate because the resource recipient is not required to satisfy any performance obligations. This has also been discussed above.

We consider there are two potential options to enhance the presentation of expenses recognised in the surplus or deficit of the resource provider in the reporting period, and which have stipulations over use that are expected to be satisfied by the resource recipient in future periods. We have explained these two options below. Later, we provide our views on which option is our preferred option.

1. Presentation— expenses are recognised when the obligating event occurs but with enhanced presentation through the statement of financial performance and note disclosure to highlight any stipulations over use. This option is similar to the presentation option that we discuss in the context of revenue recognition.
2. Other comprehensive income — presenting revenue and expenses outside of the reported surplus or deficit, similar to the presentation of other comprehensive income (OCI) in IFRS Standards. This option is similar to the OCI option that we discussed in the context of revenue recognition. This option would be appropriate only for transactions where there are resources transferred with clear stipulations imposed by the resource provider. This is because the stipulations would need to be sufficiently clear to enable the resource provider to determine when the stipulation has been met or has lapsed.

On initial recognition, the resource provider would recognise the expense as a debit in the OCI section in the statement of financial performance and then take it to a separate reserve within net assets/equity. As the resources are used by the resource recipient in the manner specified, the amount initially recognised in OCI would be recycled from the separate reserve to an expense in surplus or deficit.

This option would keep the items recognised in the statement of financial position consistent with the definitions of elements in the Conceptual Framework. An expense would still be recognised in the statement of financial performance when incurred but through a separate OCI or equivalent section.

This option would work only if the IPSASB introduces OCI into the IPSAS literature and mandates the presentation of a statement of other comprehensive income or an equivalent presentation approach, as discussed earlier in our comments on revenue recognition. This option would not work if the expenses are recognised directly in net assets/equity. If the resources are recognised directly in net assets/equity, this is less transparent and potentially misleading, as it does not clearly reflect the outflow of resources.

Whilst we consider it important that the presentation of a statement of comprehensive income is mandatory, we think that application of the OCI accounting treatment for the recognition of expenses should be optional for entities providing this type of funding, as discussed earlier in our comments on revenue recognition for this type of transaction. The resource provider could choose to apply this accounting treatment if the benefits outweigh the costs.

However, the IPSASB would need to consider how far to take this OCI approach for expense transactions with different forms of stipulations, including time requirements. If this approach is advanced further, we would suggest it be permitted only when the resource provider has the ability or mechanisms in place to monitor the resource recipient's progress towards satisfying the agreed stipulations. In addition, even if the IPSASB decided to adopt this OCI approach for revenue transactions with stipulations attached, there are some arguments that it does not necessarily mean that a similar approach should be applied to expense transactions. We comment further on this point later.

For these transactions with no performance obligations but which have stipulations over use and no enforcement mechanisms, we are proposing the OEA be applied, together with either the presentation option or the OCI option, as described above, to highlight the stipulations. These two options are consistent with those we have proposed for revenue transactions with no performance obligations, but with stipulations.

Payment after the stipulations are satisfied

If the terms of the arrangement provide for payment to be made after the stipulations are satisfied, then the liability and expense recognition would depend on when (and to what extent) the resource provider no longer has the discretion to avoid the future outflow of resources. A present obligation exists only to the extent to which the resource provider has little or no realistic alternative to avoid an outflow of resources.

In some cases, the existence of unfulfilled stipulations at the reporting date may provide the resource provider with the discretion to avoid incurring the future outflow of resources. This would depend on the terms of the arrangement and whether the resource recipient has already commenced activities to fulfil those stipulations. For example, for future funding relating to activities that have not yet commenced, it is necessary to consider whether (and the extent to which) the arrangement gives the resource provider the discretion to terminate or modify the arrangement, and thereby avoid future payments. In these circumstances, a liability and expense would not be recognised because a present obligation arising from past events does not exist. Judgement is required to determine under what circumstances the resource provider can legitimately withdraw from or modify the arrangement.

For example, if an operating grant is provided with future funding instalments based on time requirements only, then the resource provider has no control over how and when the resource recipient will meet that requirement and can only legitimately withdraw from future instalment payments when there is evidence that the resource recipient will not continue operating in the future. Without this evidence, it is unlikely the resource provider has the ability to avoid a future outflow of resources at the reporting date, and a liability and expense for the full amount of agreed future grant payments should be recognised immediately. Claims that are unconditionally enforceable, subject only to the passage of time, are generally considered to be present obligations in the context of the definition of a liability.

We encourage the IPSASB to develop guidance at a standards-level on the circumstances in which the future transfer of resources remains within the control of the resource provider, resulting in the

resource provider having a realistic ability to avoid a future outflow of resources. This could entail drawing and building upon the existing guidance in IPSAS 19.

Payment before the stipulations are satisfied

If payment is made before the resource recipient has satisfied the stipulations, then typically the expense should be recognised when paid (if not already recognised earlier). In some cases, an asset might arise. For arrangements with no enforcement mechanisms, it is unlikely that an asset would arise, but an asset could arise in some cases where the arrangement has enforcement mechanisms (discussed in the following section).

Grants, contributions and transfers to other entities — no performance obligations but with stipulations and enforcement mechanisms

Similar to our discussion under revenue, the NZASB considered whether expense transactions with no performance obligations but with enforceable stipulations should apply the broad notion of performance obligations where the expense is deferred until the stipulations are satisfied or lapse. We came to the same conclusion as we did in relation to revenue. The resource recipient satisfying those “obligations” will spend the resources received on acquiring other resources for the recipient itself, rather than transferring goods or services to the resource provider or specified beneficiaries, so an asset does not exist for the resource provider. In other words, unlike transactions with enforceable performance obligations for the delivery of goods or services, the resource provider has no prepayment asset in these transactions.

The transfer of resources in exchange for the satisfaction of stipulations would generally not result in the resource provider retaining control of the resources transferred nor obtaining any rights to the future performance by the resource recipient for the delivery of goods or services. Therefore, when a liability is recognised for the obligation to transfer resources, a corresponding asset cannot be recognised by the resource provider for unperformed stipulations.

We acknowledge that, for this category of transactions, the Conceptual Framework’s discussion of “other resources”⁹ could be applicable. Even though the Conceptual Framework’s definition of an asset is not satisfied in these circumstances, deferral of expenditure for unperformed stipulations (which are enforceable) could be considered under the “other resources” approach.

In our discussions with constituents, some have highlighted the challenges from a financial performance perspective, when grant arrangements are expensed upfront. However, for some resource providers the corresponding revenue to fund the settlement of these grant obligations is recognised in future periods. However, we concluded that it is not appropriate to defer expense recognition and report either an asset or “other resource” in the statement of financial position when the resource provider has already lost control of resources transferred to the resource recipient and cannot avoid the future outflow of resources (in the case of liabilities for future transfers of resources to which the resource provider is already obligated), as that does not faithfully represent the resource provider’s financial position.

⁹ Conceptual Framework, paragraph 5.4

For this reason, we recommend the IPSASB explores the presentation and OCI options (discussed above). In our view, these options could help to resolve the problem of explaining the resource provider's performance story, while also faithfully representing the resource provider's financial position (subject to our comments below about whether these options should be applied in the context of expense recognition, even if adopted for revenue recognition).

Payment after the stipulations are satisfied

The accounting treatment for payment after the stipulations are satisfied is consistent with other transactions with stipulations (discussed above).

Payment before the stipulations are satisfied

If payment is made before the resource recipient has satisfied the stipulations, then typically the expense should be recognised when paid (if not already recognised earlier). In some cases, an asset might arise. For example, it could be appropriate to recognise an asset in the following circumstances:

- (a) clear repayment provisions for non-compliance with any stipulations have been agreed with the resource recipient;
- (b) there is a history of the resource provider seeking refunds for non-compliance with any stipulations; and
- (c) an asset can be measured in a way that achieves the qualitative characteristics (see discussion below).

In order to recognise an asset, one factor to consider is measurement. In order to faithfully represent the resource provider's potential repayment claim that measurement would need to take into account the likelihood of the resource recipient failing to meet the stipulations. An inflow of resources back to the resource provider would be conditional on the resource recipient failing to satisfy the stipulations. That could mean that any asset would be for a very small amount or immaterial. Other measurement factors include whether, in the event of failing to meet an agreed stipulation, the resource recipient would have the resources available to return the funds and the time value of money, if significant.

In order to provide public sector and not-for-profit (NFP) entities with the funding required to continue operations, grants are often paid before the obligating event. We therefore expect it would be unusual for the resource provider to expect stipulations will not be satisfied when an arrangement is initially entered into. However, in subsequent reporting periods, evidence may become available that the stipulations will not be satisfied. At this time, even if no asset is recognised initially when the funding is first provided, the change in circumstances means that the resource provider would need to reconsider if an asset for the return of resources should be recognised.

Resource providers that provide a large number of grants to multiple recipients could have data about how many resource recipients will not satisfy the stipulations and subsequently return resources. The IPSASB would need to consider the appropriate unit of account for the recognition and measurement of assets relating to the return of resources. This could be measured on an

individual basis or as a class. The recognition and measurement of such assets would be different depending on the unit of account.

If an asset does arise, the IPSASB would need to consider how to account for the return of funds in the statement of financial performance. For example, there is a question about whether this amount should be netted off against any current grant expenditure or recognised separately as some form of revenue.

Our preference on whether to use the presentation option or the OCI option

Overall, the NZASB has similar views on which approach to apply as discussed earlier in the context of revenue recognition. The majority of NZASB members prefer the presentation option, with a minority preferring the OCI option. However, some NZASB members that preferred the presentation option also expressed some support for exploring the OCI option if there are significant difficulties in developing the presentation option.

Nevertheless, some NZASB members consider that there are different considerations in the context of expense recognition compared with revenue recognition and, therefore, do not necessarily consider that the same OCI option should apply to the resource provider. In particular, they note that the OCI option could be justified for the resource recipient on the grounds that there is a timing mismatch between the receipt of resources and spending of those resources, i.e. the resource recipient enters into two linked transactions relating to the stipulations – the imposition of those stipulations on receipt of the funding and the subsequent fulfilment of those stipulations by using that funding as specified. In contrast, the resource provider enters into only one transaction relating to the stipulations – the provision of funding with stipulations. Because there are no stipulations imposed on the resource provider (they are imposed by the resource provider on the resource recipient) the above “timing mismatch” does not arise for the resource provider. Therefore, the argument for an OCI option for the resource provider is less clear, compared with the resource recipient, and it could even be viewed as misleading for the resource provider to apply this approach. Also, an OCI option from a resource provider perspective would be inherently difficult to apply, because the resource provider would often have little control over the satisfaction of agreed stipulations by the resource recipient and may not have sufficient information to determine when those stipulations have been satisfied (especially in the case of unenforceable stipulations). However, if the IPSASB chooses to develop the OCI option for revenue, some NZASB members and some New Zealand constituents suggested that an OCI option for expenses should also be considered. Before the IPSASB develops this option for expenses, we recommend the IPSASB obtains feedback on the appropriateness of the proposal from other constituents.

Grants, contributions and transfers to other entities — transfer of goods or services to beneficiaries (specific and enforceable)

The NZASB is of the view that where an arrangement entails specific and enforceable performance obligations for the resource recipient to transfer goods or services either directly to beneficiaries or to the resource provider, the resource provider should account for the outflow of resources by using the PSPOA for expenses (simplified).

Under this approach, the obligating event arises for the resource provider when agreed performance obligations are satisfied by the resource recipient.

Consistent with our proposed approach for revenue, we consider that the PSPOA for expenses should apply only to transactions with performance obligations. Therefore, we do not agree with PV 7 that the PSPOA for expenses should also apply to non-exchange expense transactions with stipulations.

Payment before the performance obligations are satisfied

If payment is made before the resource recipient has satisfied the performance obligations, then a prepayment asset is recognised. When there are specific and enforceable performance obligations, the resource provider has an enforceable right to the performance by the resource recipient for the future delivery of goods or services, and it is assumed that remedies are available for the return of funds when agreed goods or services are not delivered.

Payment after the performance obligations are satisfied

If payment is made after the resource recipient has satisfied the agreed performance obligations, then the payment settles the resource provider's liability to the resource recipient, as a liability and expense is recognised earlier, at the point when the agreed goods or services have been transferred to the agreed beneficiaries.

APPENDIX 2 Response to Preliminary Views and Specific Matters for Comment

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9 *Revenue from Exchange Transactions*, and IPSAS 11 *Construction Contracts* with an IPSAS primarily based on IFRS 15 *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reason.

We broadly agree with PV 1, subject to our earlier comments on our proposed framework and our comments below.

As discussed earlier, under our proposed framework, the existence or absence of performance obligations in revenue transactions should be the key determinant for revenue recognition in the public sector.

Therefore, in our view, all revenue transactions with performance obligations should be accounted for under an IPSAS based on IFRS 15, the PSPOA. Hence, we consider that the PSPOA should be applied more broadly than Category C transactions. As noted in our discussion of our proposed framework, there is scope for certain transactions in Category B to be accounted under the PSPOA. This includes performance obligation transactions with enforcement mechanisms and involves the transfer of goods or services to beneficiaries, including those which are subsidised or on a cost-recovery basis.

However, the scope of the PSPOA would depend on how the IPSASB defines key factors such as enforceability and performance obligations.

An IPSAS based on IFRS 15 would assist our PBE groups that include for-profit controlled entities by reducing unnecessary consolidation adjustments for Category C revenue transactions.

It would also assist public sector entities with debt securities on international stock exchanges. The international stock exchanges require identifying the differences between our PBE Standards¹⁰ and the IFRS Standards. An IPSAS based on IFRS 15 would assist the readers of these entities' financial statements by avoiding major differences between PBE Standards and IFRS Standards.

An IFRS 15 convergence project for Category C revenue transactions may appear simple at face value. However, this process will likely include a number of challenges as recently experienced by the Australian Accounting Standards Board (AASB), which completed a similar project at the end of 2016. Some of the challenges the AASB had to address are noted below. Some of these challenges are already covered in the *Broadened for the Public Sector* sections of the CP chapter 4, but we wanted to stress their importance for when the IPSASB develops an IPSAS based on IFRS 15.

¹⁰ PBE Standards are based on IPSASs

- Enforceability – what is enforceability in the public sector? The AASB noted that a return obligation is an indicator of enforceability, but not the only indicator. The AASB expanded the enforceability guidance to include a range of factors that could potentially result in an enforceable arrangement. Some examples of these factors are the resource provider’s right to enforce specific performance or claim damages or agreement on the alternative uses for the resources provided. The IPSASB would need to consider which enforcement mechanisms in the public sector would result in the resource recipient having a present obligation for unfulfilled performance obligations.
- Performance obligations – what is a performance obligation in the public sector? AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* notes that some resources are provided with no, or minimal, terms and conditions on how the resources must be used. Other resources may have stipulations only in the form of time requirements. For these reasons, it can be difficult to distinguish goods or services provided to meet a general requirement from any of the not-for-profits’ other goods or services provided.¹¹ The AASB kept the principle that a performance obligation exists only if it is sufficiently specific to enable the recipient to determine when it has satisfied that obligation.¹² In addition, as discussed earlier, the type of “performance obligations” within the scope of the PSPOA should be limited to those that require the transfer of goods or services to other parties, rather than the broader notion of “performance obligation” currently in IPSAS 23.

The IPSASB would need to develop an appropriate definition of a performance obligation with supporting guidance. The definition should be consistent with the definition of a performance obligation in IFRS 15, but adapted for the public sector.

- Transactions with two components – how and when to account for transactions where there is a performance obligation and another component? For example, in a fundraising dinner, the ticket price could exceed the usual market rate for the dinner, indicating that there are two components: the dinner (for which there is a performance obligation) and a donation. One of the issues the AASB had to consider was the subjectivity in assessing the resource provider’s intent at the time of making the donation. Often this intent is not known due to a lack of evidence.¹³ The AASB ended up developing guidance on determining the circumstances in which the donation component should be separated from the performance obligation component.
- Licences – the AASB is currently considering the accounting treatment of public sector licences. Some issues it is considering include determining the circumstances in which the revenue from granting a licence is, in substance, a tax (and hence should be accounted for in the same way as taxes) or involves the delivery of goods or services (and hence should be accounted for under the PSPOA). For some public sector entities, accounting for licence

¹¹ AASB 2016-8.BC38

¹² AASB 2016-8.BC49

¹³ AASB 2016-8.BC52

revenue is a significant issue, so the IPSASB would need to consider how this would be addressed.

- Direct relationships between inputs and outputs – in the public sector, there are transactions where the arrangement does not explicitly require the transfer of a good or service but may do so implicitly where there is a direct relationship between the funding and the outputs delivered. Such arrangements have all the criteria to fall within the scope of IFRS 15, except for the lack of an explicit requirement to transfer goods or services. We think these transactions could be accounted for under the PSPOA because, in substance, they are substantially similar to an IFRS 15 transaction – the resource provider is effectively funding the delivery of the outputs (goods or services) to other parties. For example, the resource recipient receives funding for the salary for one of its employees who is engaged in providing services to beneficiaries (e.g. a doctor providing health services) and the resource provider directs the output of that employee for the benefit of the resource provider. In this situation, there is a direct relationship between the funding and the output (services delivered by the employee to beneficiaries). In making this point, we note that this situation is different from the earlier example discussed in Appendix 1, because in that earlier example there is no direct relationship between the funding and the resource recipient's outputs.
- Output-based appropriations – in New Zealand, certain public sector entities receive funding via output-based appropriations where the resource provider specifies what outputs the resource recipient must deliver with the funding. This can be viewed as either (a) funding the resource recipient or (b) buying outputs from the resource recipient. The resource recipient is accountable to the resource provider for the delivery of the agreed outputs and the arrangement is monitored by the resource provider. We recommend that the IPSASB carries out research on the specificity of funding arrangements within the public sector of different jurisdictions and consider which of these transactions could appropriately be accounted for using the PSPOA.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

As discussed earlier, our proposed framework for revenue transactions in the public sector would distinguish between revenue transactions with and without performance obligations.

Therefore, we agree revenue transactions in Category A should be accounted for under a residual revenue standard or a residual section of a revenue standard, based on the applicable parts of IPSAS 23. IPSAS 23 would, of course, need to be updated to address practice issues relating to Category A transactions. We comment on this further in our response to SMC 1.

However, it is important to note that under our proposed framework, some parts of IPSAS 23 would no longer be applicable. For example, those parts dealing with:

- the distinction between exchange and non-exchange transactions; and
- the distinction between conditions and restrictions.

Also, a future revenue standard (or section of a standard) for Category A transactions, and those transactions in Category B that do not contain performance obligations and hence are not accounted for under the PSPOA, would need to have a clearly worded scope section to make it clear that the standard applies only to these types of revenue transactions. For example, the standard should not apply to other transactions, such as public sector combinations.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

We have identified the following matters for the IPSASB to consider in developing a residual revenue standard (or residual section of a revenue standard) based on updating the applicable content from IPSAS 23.

- Consider modifying the taxable event to a taxable period where the tax is intended to cover a period rather than a point in time. For example, property rates are set before the beginning of the year (this is the taxable event under IPSAS 23) but the rates relate to services provided to ratepayers throughout the year rather than the point at which the rates are levied.
- Appropriations (i.e. the authorities provided by parliament for governments to spend) are integral to the operation of governments. There is often debate about how appropriations affect the accounting for revenue by entities subject to appropriations (including whether an appropriation should be treated as revenue or a capital contribution). In our view, a residual revenue standard (or section of a revenue standard) needs to discuss appropriations that are not in the scope of an IPSAS based on IFRS 15 (including the different types of appropriation – e.g. multi-year appropriations) and provide guidance about how they affect the accounting for revenue.
- As noted in our comments on PV 1, the IPSASB would need to consider developing guidance for the recognition of revenue from granting licences. Is it a delivery of goods or services or is it a tax?
- Also, there are other types of specific rates or taxes that are related to particular goods or services, such as water rates. The IPSASB should consider developing guidance to help determine which revenue standard (or section of the standard, if there is only one revenue standard) applies to these transactions.
- In the proposed *Strategy and Work Plan 2019–2023* consultation, one of the IPSASB's proposed projects is to review IPSASs against the chapters on elements and recognition in the

Conceptual Framework. As part of this review, the IPSASB should consider modifying or removing paragraphs 37–38 of IPSAS 23 which provide guidance on contributions from owners. IPSAS 23 was developed before the Conceptual Framework and this guidance may no longer be needed now that the IPSASB has the Conceptual Framework.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

The NZASB does not agree that all Category B transactions should be accounted for using the PSPOA.

As noted in our earlier comments on our proposed framework, there is a wide spectrum of transactions in Category B. The scope of Category B transactions that could be accounted for using the PSPOA would depend on how the IPSASB defines key factors such as enforceability and performance obligations.

Under our proposed framework, all revenue transactions with performance obligations should be accounted for under the PSPOA. The PSPOA would be appropriate for revenue from transactions that involve the transfer of goods or services to either the resource provider or beneficiaries. The PSPOA would not be appropriate for consumption-based stipulations (even if they are accompanied by return conditions and/or other enforcement mechanisms) because these are not performance obligations that result in an outflow of resources. We have discussed in Appendix 1 the approaches under our proposed framework for the other Category B transactions (with no performance obligations but with consumption-based stipulations).

We have identified transactions which are currently within the scope of IPSAS 23 that we consider should be accounted for using the PSPOA. As discussed earlier, these are transactions with no explicit return condition, but which have other enforcement mechanisms and involve the transfer of goods or services to beneficiaries, including those which are subsidised or on a cost-recovery basis. See our earlier discussion of our proposed framework for the full details.

We have also identified a range of issues to be considered in developing the PSPOA, as discussed in PV 1 and SMC 2.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29 – 4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36 – 4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);

Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and

Step 5 – Recognise revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

We agree with broadening the requirements of the IFRS 15 model in developing the PSPOA. We have commented on steps 1 and 2.

Step 1 – Identify the binding arrangement

- We agree with the broader concept of enforceability. In discussions with constituents, some have advocated a further broadening, but we do not agree that it would be appropriate, for example, to extend this to moral obligations. A PSPOA is appropriate only when the resource provider has enforcement mechanisms available, as discussed earlier (see our response to PV 1).
- The IFRS 15 revenue recognition approach should be extended under the PSPOA to capture revenue from transactions with three party arrangements (resource provider, resource recipient and beneficiary). The key requirement is for the resource recipient to have an obligation to transfer goods or services to an external party, which could be the resource provider or the third-party beneficiary. This approach is consistent with IFRS 15, as the customer may not always receive the goods or services in transactions that fall within the scope of IFRS 15 (e.g. where a customer contracts with a florist to deliver flowers to a third party). However, many of the definitions and guidance in IFRS 15 are focused on two party arrangements, which are the most common form of transaction in the for-profit sector, whereas three-party transactions are more common in the public sector.
- One of the criteria for a contract to fall within the scope of IFRS 15 is commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract). AASB 2016-8 notes that contracts that include a subsidy or which are provided on a cost-recovery basis can be accounted for under IFRS 15. Although these arrangements provide goods or services without generating a commercial return, they may still cause a change in the risk, timing or amount of the NFP entity's future cash flows.¹⁴

¹⁴ AASB 2016-8.F19

Therefore, we consider transactions that transfer goods or services to beneficiaries with a subsidy or cost-recovery basis should be accounted for under the PSPOA.

Step 2 – Identify the performance obligation

- The IPSASB would need to develop an appropriate definition of a performance obligation with supporting guidance. The definition should be consistent with a performance obligation as defined in IFRS 15, but adapted for the public sector.
- In the public sector, identifying the performance obligations and unbundling performance obligations into those that are distinct (and hence accounted for separately from other performance obligations) will require a greater level of judgement than in the for-profit sector because there is often less detail on the specification of the goods or services to be delivered. While some level of specificity is necessary (e.g. to conclude that the arrangement includes performance obligations and determine when those obligations have been satisfied), that does not mean a high level of specificity is necessary. We encourage the IPSASB to develop guidance on identifying performance obligations in a public sector context. In doing so, we also encourage the IPSASB to consider the nature of public sector transactions and provide guidance on identifying performance obligations using principles rather than being prescriptive. This would allow the resource recipient to apply its judgement in identifying performance obligations based upon the terms of each particular arrangement.
- To assist resource recipients in identifying specific performance obligations within binding arrangements in the public sector, we suggest the following factors¹⁵ be considered:
 - (a) the nature or type of the goods or services;
 - (b) the cost or value of the goods or services;
 - (c) the quantity of the goods or services; and
 - (d) the period over which the goods or services must be transferred.

We are not suggesting that all of these factors need to be present or that there are not other factors that could be relevant. Rather, we think that these are examples of factors that are likely to be helpful in identifying performance obligations. In general, for a performance obligation to be considered specific enough for the PSPOA to be applied, these are the types of factors that would assist with making that assessment.

- We agree with the IPSASB's view in the CP that a time requirement in and of itself does not create a performance obligation. For revenue transactions where the time period for using the resources is specified, but the exact nature of the goods or services to be transferred is not specified, these transactions should be accounted for under a residual revenue standard (or residual section of a revenue standard). For the PSPOA to apply, a time requirement is not a factor of performance obligations; rather, one of the key factors is that there should be a link between the resources received and the transfer of goods or services externally.

¹⁵ AASB 2016-8.F20

- Also, see our earlier responses for other issues to consider (such as our response to PV 1).

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;
- (b) Option (c) – Classify time requirements as a condition;
- (c) Option (d) – Classify transfers with time requirements as other obligations; or
- (d) Option (e) – Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

As noted earlier, our preference is for the IPSASB to develop an approach based on whether or not there are performance obligations arising from Category B transactions, rather than developing requirements based on the current exchange or non-exchange classification. We accept that for revenue transactions with no performance obligations, but which do have stipulations over use (relating to either when or how the funds must be used), a residual revenue standard (or residual section of a revenue standard) is required (together with Category A transactions).

The NZASB does not support Approach 1 as it:

- does not resolve the current issues experienced with the exchange or non-exchange distinction in IPSASs;
- does not promote the accounting for a broader range of public sector transactions under an IFRS 15 revenue recognition approach; and
- addresses concerns regarding the accounting for transactions with time requirements only. It does not address the accounting for other public sector transactions which may not have performance obligations as defined under IFRS 15 but have other stipulations as to how the funds must be used.

Whilst we do not support Approach 1, we support the IPSASB in considering option (b) and an extension of option (e) for transactions with no performance obligations but with stipulations over use. We explain these two options below.

Presentation

Under our proposed framework, this option is the same as Approach 1 “The Exchange/Non-Exchange – Update IPSAS 23”, option (b) proposed in the CP. Revenue is recognised when resources are received or receivable but with enhanced presentation to highlight the stipulations over use and the timing of fulfilment of those stipulations. This option stays true to the definitions of elements in the Conceptual Framework and gives the resource recipient a method of communicating its performance story to the users of financial statements. This option would help to educate users to

focus not only on the surplus or deficit (the “bottom line”) but to also look at what makes-up the surplus or deficit.

A university in New Zealand, the University of Auckland (Auckland University), has used this presentation option (under the current PBE Standards) to separate its unrestricted and restricted funds in the statement of financial performance, statement of financial position and statement of changes in net assets. These statements are supported by accounting policies and note disclosures. Auckland University wanted to clearly identify its core operating activities and thought this presentation was the best way to achieve this. This example may be of interest to the IPSASB in developing this option.¹⁶

Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organisations* (Statement No. 117) provides specific guidance for the presentation of restricted funding received by NFPs within general purpose financial statements. Statement No. 117 requires classification of an organisation's net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets—permanently restricted, temporarily restricted, and unrestricted—be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.¹⁷ Statement No. 117 provides guidance using the columnar presentation.

In 2016 the FASB issued Accounting Standards Update 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities* (ASU).¹⁸ The main changes in ASU are:

- the three classes of net assets in the statement of financial position and the change in each of those classes of net assets in the statement of activities are replaced with two classes, net assets with donor restrictions and net assets without donor restrictions;
- enhanced disclosures about the composition of net assets with donor restrictions at the end of the period and how those restrictions affect the use of resources; and
- requiring an analysis of how the nature of the NFP's expenses relates to its programmes and supporting activities.

The FASB's guidance may be of interest to the IPSASB in developing this option.

In developing this option, we recommend the IPSASB develops guidance on how to present the fulfilment of the stipulations. If the IPSASB intends to use the restricted and non-restricted concepts, there needs to be appropriate basis for transferring resources from restricted to unrestricted when the stipulations are met. For example, for transactions with time requirements, the fulfilment of the stipulation could be recognised as the resources are consumed (if feasible), on a straight-line basis, or when the time has lapsed.

¹⁶ University of Auckland 2016 Annual Report
<https://cdn.auckland.ac.nz/assets/auckland/about-us/the-university/official-publications/annual-report/2016-annual-report-university-of-auckland.pdf>

¹⁷ Equivalent to a statement of financial performance

¹⁸ <https://asc.fasb.org/imageRoot/56/92564756.pdf>

In developing this option, we recommend the IPSASB does not mandate this requirement as it would create extra compliance costs for preparers, particularly for those entities that are not significantly impacted by stipulations over use. However, the IPSASB should encourage this option in the statement of financial performance in the period the resources are received so users can understand the resource recipient's results and the impact of the stipulations on the resources received. To assist preparers in applying this option, we recommend that the IPSASB develops illustrative examples.

Other comprehensive income

Under our proposed framework this option is an extension of Approach 1, option (e) proposed in the CP. Our option would require the IPSASB to develop principles for presenting revenue and expenses outside of surplus or deficit, similar to the presentation of OCI in IFRS Standards (for the reasons explained below). This option would be appropriate only for transactions where there are resources with clear stipulations imposed by the resource provider. On initial recognition, the recipient would recognise the inflow of resources in the OCI section within the statement of financial performance and then take those resources to a separate reserve within net assets/equity. As the resources are used, the amount initially reported in OCI is recycled to revenue in surplus or deficit.

Under the OCI option it will be important that the resource recipient has the ability to demonstrate the satisfaction of the agreed stipulations, to allow OCI to be recycled to surplus or deficit in the appropriate reporting period. For consumption-based stipulations, OCI could be recycled based on the satisfaction of agreed stipulations and, for time-based stipulations, OCI could be recycled using a straight-line basis or when the time has lapsed.

Our suite of PBE Standards already has the concept of OCI, which we refer to as "other comprehensive revenue and expense". Before introducing our suite of PBE Standards based on IPSAS, our public sector entities had previously applied New Zealand equivalents to IFRS Standards, including OCI, so we carried forward OCI into our suite of PBE Standards.

This option keeps the items recognised in the statement of financial position consistent with the definitions of elements in the Conceptual Framework. The resources would still be recognised in the statement of financial performance when received or receivable, but through a separate OCI or equivalent section.

This option overcomes the strict principle in IPSAS 23, which does not permit revenue from the receipt of resources with no conditions to be recognised at the time when the stipulations are met or lapse. This approach acknowledges the ongoing existence of stipulations on resources in the statement of financial performance. It is more likely to result in revenue being included in surplus or deficit in the same periods as those in which the resources are used.

This option would work only if the IPSASB introduces OCI into the IPSAS literature and mandates the presentation of a statement of other comprehensive income or an equivalent presentation approach (i.e. if this approach were adopted, it should apply to all instances in which revenue or expenses are recognised directly in net assets/equity under current IPSAS literature, such as when accounting for cash flow hedges in accordance with the standards for financial instruments). This option would not work if the resources were recognised directly in net assets/equity. If the resources were recognised

directly in net assets/equity, this would be less transparent and potentially misleading, as it would present a message that the resource recipient has not benefited from receiving the resources, which does not reflect the substance of the transaction.

Whilst we consider that the presentation of the statement of comprehensive income should be mandatory, we think that application of the OCI accounting treatment for the recognition of revenue should be optional, for the reasons explained more fully in Appendix 1. In summary, there are cost/benefit concerns with applying this approach. Hence, making it optional would enable the resource recipient to apply this accounting treatment only if the benefits outweigh the costs. Mandating this accounting treatment would create extra compliance costs for resource recipients, particularly for those entities that are not significantly impacted by time requirements or other stipulations over use.

The majority of NZASB members prefer the presentation option, with a minority preferring the OCI option. In addition, some NZASB members that prefer the presentation option would also accept the OCI option if there are significant difficulties in developing the presentation option.

Option (c) and option (d)

For completeness, we would like to note that we do not support option (c) because a time requirement does not meet the definition of a liability.

We also do not support option (d) because we do not support the introduction of the notion of “other obligations”, which are not liabilities. We also note that time requirements are not an economic phenomena that should be treated any differently from other revenue transactions with no performance obligations but which have stipulations over use. See Appendix 1 for additional discussion on these points.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

As noted earlier, we do not support the IPSASB retaining the exchange or non-exchange distinction. The CP notes that preparers have indicated the difficulty and time involved in making this distinction. Many of our preparers and auditors have also experienced this difficulty and have spent a considerable amount of time in making this distinction but there is no apparent value to the users of the financial statements.

However, if the IPSASB were to retain the exchange or non-exchange distinction, then we agree additional guidance on this distinction should be used in combination with our preferred options in SMC 3. A lot of additional guidance on this would be helpful given the issues in application. We agree that additional guidance would be required on the meaning of the phrases “directly giving” and

“approximately equal value” which are currently used in the definition of non-exchange transactions.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

Under our proposed framework, capital grants would be under the category of transactions with no performance obligations but with stipulations over use, either with or without enforcement mechanisms. As discussed earlier, there are different views on the appropriate accounting for these transactions.

We agree the IPSASB should address the accounting for capital grants in an IPSAS. This is an important matter for our constituents so we encourage the IPSASB to develop appropriate solutions by considering the approaches we have discussed below in our response to SMC 5.

Specific Matter for Comment 5 (following paragraph 5.5)

- (a) Has the IPSASB identified the main issues with capital grants?
If you think that there are other issues with capital grants, please identify them.
- (b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?
Please explain your issues and proposals.

- (a) Yes, the IPSASB has identified the main issues with capital grants.
- (b) Consistent with our discussions for transactions with no performance obligations but with stipulations over use, we recommend the IPSASB considers the presentation and OCI approaches for the accounting of capital grants.

Presentation approach

This approach is the same as Approach 1 “The Exchange/Non-Exchange – Update IPSAS 23”, option (b) proposed in the CP. Revenue is recognised when received or receivable and using presentation to highlight the stipulation. This option stays true to the definitions of elements in the Conceptual Framework and gives the resource recipient a method of communicating its performance story to the users of its financial statements.

Other comprehensive income approach

The OCI approach is the same as the OCI option in our discussion in Appendix 1. On initial recognition, the resource recipient would recognise the inflow of resources in OCI in the statement of financial performance and then take those resources to a separate reserve within net assets/equity. As the resources are used to construct the asset over the specified time or when the asset is acquired, OCI is recycled to revenue in surplus or deficit. We consider that the stipulations on resources provided for the acquisition or construction of assets are largely fulfilled when the resources are spent in the manner specified by the resource provider. We consider that the ongoing requirement to use the asset for the

specified purpose to be in the nature of a restriction on assets, which should be disclosed in the notes to the financial statements.

This approach would work only if the IPSASB introduces OCI into the IPSAS literature, as discussed earlier. This approach would not work if the resources were recognised directly in net assets/equity. If the resources were recognised directly in net assets/equity, this would be less transparent and potentially misleading, as it would present a message that the resource recipient has not benefited from receiving the resources, which would not reflect the substance of the transaction.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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

The NZASB supports retaining the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind. Leaving this as optional allows entities the choice as to whether they recognise services in-kind; entities would do so if the benefits outweigh the costs.

If the IPSASB mandates the recognition of services in-kind, entities would have to develop systems and processes to gather auditable information (which may be a challenge to audit). Preparers could end up treating this as an accounting compliance exercise. In New Zealand, compliance costs associated with the recognition of services in-kind would be an issue for many public sector entities, and particularly registered charities (which are generally subject to the same requirements as public sector entities).

Whilst we support retaining the existing guidance, we suggest the IPSASB reviews the disclosure of services-in kind. Currently in IPSAS 23.108, entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognised. The IPSASB could consider mandating this disclosure. This is one way to improve the financial reporting in this area.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

As discussed earlier, under our proposed framework for expense recognition, we do not agree that non-exchange transactions related to universally accessible services and collective services should be accounted for under an EOE.

In particular, we do not agree with the "extended" part of the obligating event approach, as we disagree with the conclusion and rationale in paragraphs 6.20 and 6.21 that the resource provider has control over the resources already transferred. The enforceable right to require the return of those resources, if and when a condition is breached, may give rise to an asset but not necessarily for the same amount as the resources transferred. For example, if the possibility of a breach is small, any asset recognised would be for a small amount only.

In general, for non-exchange expense transactions with no performance obligations, we have proposed an obligating event approach, based on the Conceptual Framework's definition of a liability, and further guidance in IPSAS 19 where applicable.

However, for universally accessible services and collective services, we consider that similar issues arise as are being considered in the current IPSASB project on social benefits. We plan to comment separately on ED 63 *Social Benefits*. At this stage, our view is that the determination of an obligating event for social benefit schemes is not substantively different from the determination of an obligating event for general obligations to provide services to the public, this being collective services and universally accessible services.

The NZASB considers that where expense transactions such as social benefits, collective services, and universally accessible services have similar characteristics, a consistent approach for liability and expense recognition is required. We therefore encourage the IPSASB to consider how any decisions made in the development of standards-level requirements for social benefits would impact the development of an approach for collective services and universally accessible services.

Further discussion on the NZASB's proposed approach is provided in Appendix 1.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

The NZASB does not agree with the rationale provided for the PV and considers that this issue requires considerable further discussion and analysis before a robust conclusion can be reached.

In our view, the IPSASB's conclusion in paragraph 6.38 that there is no obligation prior to the delivery of services is not based on a sound rationale, as the rationale provided appears to mix the issue of measurement of a liability with the existence of a liability – the fact that a government might be able to vary the level of services provided could impact on *the extent* of its obligation to beneficiaries, but it does not follow that *no* obligation exists. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability.¹⁹

In many cases, the beneficiaries of these services have existing rights that have been established through legislation, policy announcements, or other government actions. For example, in New Zealand, children have a right to free education between age 5 and 19 (a universally accessible service) under existing legislation. In accordance with the guidance in the Conceptual Framework, the existence of liabilities is based on existing legislation.²⁰ Hence, it could be argued that a liability already exists to provide education to existing citizens under the age of 19.

Nevertheless, we appreciate a conclusion that a liability arises at an earlier point than when the services are delivered has potentially significant consequences. It raises issues similar to those discussed under the IPSASB's social benefits project. We do not consider that there is a substantive difference between the types of expenses being discussed in the social benefits project and universally accessible services and collective services. We therefore encourage the IPSASB to consider how any decisions made in the development of standards-level requirements for social benefits would impact the development of an approach for universally accessible services and collective services.

Further discussion on this matter is provided in Appendix 1.

Other comments

The public sector has a wide range of general obligations to provide services to the public, which include universally accessible services and collective services as defined by the CP. When developing standards-level requirements, it will be important to clarify that any guidance on the accounting for non-exchange expense transactions arising from universally accessible services and collective services is in the context of determining when obligations to provide those services to beneficiaries arise before the resource provider engages with another organisation, employee or supplier to deliver the services to the public.

¹⁹ Paragraph 5.22 of the Conceptual Framework

²⁰ Paragraph 5.22 of the Conceptual Framework

Other than the brief reference in paragraph 6.40 of the CP, that the delivery of universally accessible services and collective services may involve a number of exchange transactions, the CP has not discussed the various stages of implementing a programme of delivering services to the public. This has made it difficult for the NZASB to assess when the obligating event arises and to whom the obligation arises, under the proposed recognition approaches in the CP. We expect that expense transactions arising from universally accessible services and collective services, when the resource provider engages with a supplier to deliver the services to the public, would have performance obligations and should therefore be accounted for by applying the PSPOA. Therefore, it will be important to make it clear when different expense recognition approaches would apply to the various stages of implementing a programme of delivering services to the public.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

The NZASB does not agree that a PSPOA should be applied to all non-exchange expense transactions that contain either performance obligations or stipulations.

Consistent with our proposed framework for revenue recognition, we consider that a PSPOA is only appropriate for expense transactions with performance obligations – that is, transactions where the resource recipient has an enforceable and specific obligation to transfer goods or services to the resource provider or agreed beneficiaries.

Under the proposed PSPOA for expenses, we consider that a simplified approach could be developed, based on recognising a liability and expense when performance obligations are satisfied by the resource recipient, rather than developing a full PSPOA based on the IFRS 15 five-step recognition model modified to reflect the resource provider context.

The simplified PSPOA for expenses would require the following to be considered.

- (a) Definition of a performance obligation such as specificity of the goods or services to be delivered.
- (b) Definition of enforceable – what enforcement mechanisms in addition to a return obligation would allow for a PSPOA to be applied?
- (c) Accounting for payments before the delivery of goods or services – similar to payments made in advance to suppliers in an exchange transaction, a prepayment asset would arise.

Where the PSPOA for expenses is applied to transactions involving the resource recipient transferring specific goods and services to beneficiaries, we consider this approach would only be appropriate where the resource recipient provides reliable reporting on progression of service performance delivery to the resource provider.

The NZASB considered whether expense transactions with no performance obligations but with stipulations should apply a broader notion of performance obligations where the expense is

deferred until the stipulations are fulfilled or lapse. We also considered whether to apply the Conceptual Framework's discussion of "other resources". Even though the asset definition is not satisfied, deferral could be justified under the "other resources" approach. However, as explained in Appendix 1, we do not support either of these approaches, because they would not faithfully represent the resource provider's financial position.

Instead, we recommend the IPSASB explores the presentation and OCI options as proposed under our framework. In our view, these options could help to resolve the problem of explaining the resource provider's performance story, while also faithfully representing the resource provider's financial position.

Further discussion on the NZASB's proposed approach is provided in Appendix 1.

Preliminary View 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Our general comment on this chapter is that the discussion in the chapter is narrower than we expected. The chapter states that its purpose is to discuss the measurement of non-contractual receivables and non-contractual payables. However, the chapter focuses on statutory receivables and statutory payables only. We have assumed that the focus on statutory receivables and payables was intentional.

Paragraph 4.31 of the CP notes that many public sector arrangements are non-contractual and many binding arrangements are established through means other than legal contracts. Paragraph 7.5 of the CP notes that donations and bequests are other examples of non-contractual receivables. Therefore, only a small portion of public sector receivables and payables are contractual. The purported scope of chapter 7 of the CP is therefore broader than the receivables and payables discussed in the chapter.

Given the wide scope of non-contractual receivables and non-contractual payables, we recommend that the IPSASB first establish the recognition approaches for revenue and non-exchange expenses. The recognition approaches will then drive the appropriate measurement. The South African Accounting Standards Board's (ASB) GRAP 108 *Statutory Receivables* may assist the IPSASB with the measurement of statutory receivables. We have provided further details of GRAP 108 below.

Therefore, we do not agree with the preliminary view that all non-contractual receivables should be measured at face value on initial recognition.

GRAP 108 has guidance on the initial and subsequent measurement of statutory receivables. GRAP 108 requires statutory receivables to be initially measured in accordance with the relevant standard of GRAP. We suggest the IPSASB looks at GRAP 108 for guidance in developing the initial measurement of non-contractual receivables.

Examples of where initial measurement would be different under our proposed framework are as follows.

- Transactions with performance obligations would be accounted for using the PSPOA. The initial measurement of receivables in relation to those transactions should be in accordance with an IPSAS based on IFRS 15. Subsequently, any impairment of such receivables would be recognised in accordance with an IPSAS based on IFRS 9 *Financial Instruments*.
- Statutory receivables generally do not have performance obligations or stipulations. For these types of transactions (which would be in a residual revenue standard (or residual section of a revenue standard) based on an updated version of the applicable parts of IPSAS 23), it would be appropriate to initially measure the receivable at face value. Face value has information value and is easier for users to understand. The face value should be supported with disclosure of the impairment. Face value measurement and the disclosure of impairment promote accountability and transparency.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

The NZASB agrees with PV 9 for statutory receivables. However, as noted in our response to PV 8, the CP focuses only on statutory receivables. The purported scope of chapter 7 of the CP is *non-contractual receivables*, this covers all receivables that are non-contractual. Subsequent measurement of non-contractual receivables will depend on the type of revenue.

Given the wide variety of non-contractual receivables, we recommend that the IPSASB first establish the recognition approaches for revenue. This will then help to drive the appropriate measurement.

For statutory receivables, the fair value approach to subsequent measurement has appeal because it appears the most workable of the three approaches to apply in practice. However, we would recommend that the IPSASB determine the presentation and disclosure requirements for statutory receivables starting from scratch, rather than looking to adopt all the disclosures from IFRS 7 *Financial Instruments: Disclosures* by analogy. Many of the IFRS 7 disclosures have been designed with commercial contractual arrangements in mind, with a focus on counter-party credit risk and would therefore not be applicable to statutory receivables.

In the New Zealand context, the Government's tax receivable portfolio is not overly sensitive to discount rates, but that may not be the case in other jurisdictions. The IPSASB would need to consider how the volatility in discounted cash flows is best presented in the statement of financial performance. Also, the IPSASB would need to consider where the fair value gain or loss is displayed in the statement of financial performance and what it is called. It may be better to display the movement in the same line each year, regardless of whether it moved from a loss or gain in different years.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfilment Approach:
- (b) Amortised Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

As noted in our responses to PV 7 and PV 8, given the wide range of non-contractual receivables and non-contractual payables, we recommend that the IPSASB first establish the recognition approaches for revenue and non-exchange expenses. This will then drive the appropriate measurement.

Until the IPSASB does further work on the measurement of non-contractual payables, at this stage the NZASB supports the application of the IPSAS 19 requirements for the subsequent measurement of non-contractual payables. IPSAS 19 requires provisions to be measured using the best estimate of the expenditure required to settle the present obligation at the reporting date. This is an appropriate approach to the measurement of non-contractual payables, and, as noted in the CP, is the approach currently used by some jurisdictions.



15 January 2018

Mr John Stanford
 Technical Director
 International Public Sector Accounting Standards Board
 International Federation of Accountants
 277 Wellington Street West
 Toronto
 Ontario M5V 3H2
 CANADA

Submission via www.ifac.org

Dear John

Submission on Consultation Paper: Accounting for Revenue and Non-Exchange Expenses

We welcome the opportunity to comment on the Consultation Paper ("the CP"). Our responses to the specific questions raised in the CP are set out in Appendix A. We commend the IPSASB for its efforts in identifying the divergent accounting treatment of revenue and expenses, and proposing an alternative model. Against this back drop of support below we outline a summary of our responses:

- The proposed model for recognition of both revenue and expenses is over-complicated.
- Revenue transactions should not be classified as exchange or non-exchange.
- Revenue transactions should not be categorised as A, B or C.
- The model for revenue recognition should be based on whether there are sufficiently specific performance obligations.
- Where there are sufficiently specific performance obligations, a public sector performance obligation approach based on the principles of IFRS 15 should be applied.
- Where sufficiently specific performance obligations do not exist, a residual standard or a residual section of a standard based on the applicable parts of IPSAS 23 should be applied.
- Where an agreement contains consumption-based terms, such as time requirements, these should be accounted for as an 'other obligation' so revenue can be deferred.
- The model for expense recognition does not necessarily have to mirror the revenue recognition approach.

In New Zealand the accounting standards for public benefit entities (PBEs), which includes both public sector entities and not-for-profit entities (NFPs), are mainly based on IPSAS. The New Zealand Accounting Standards Board (NZASB) modifies IPSAS for application by NFPs. Where applicable, the language is generalised and NFP-specific illustrative examples are added. NFPs have their own set of unique challenges, and as such the implications for this sector must be considered too.

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We note that the Australian Accounting Standards Board (AASB) completed a similar project at the end of 2016 and issued AASB 1058 *Income of Not-for-Profits*. We encourage the IPSASB to draw upon this project as the AASB has already worked through some of the challenges outlined in the CP.

Appendix B includes more information about Chartered Accountants Australia and New Zealand (CA ANZ). Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Ceri-Ann Ross (Reporting Leader) via email; ceri-ann.ross@charteredaccountantsanz.com.

Yours sincerely

A handwritten signature in black ink, reading "Liz Stamford". The signature is written in a cursive, flowing style.

Liz Stamford
General Manager, Policy
Chartered Accountants Australia and New Zealand

Appendix A: Responses to specific questions

Preliminary View 1

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11 *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangements) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

We agree with replacing IPSAS 9 and IPSAS 11 with an IPSAS primarily based on IFRS 15. We support close alignment between IFRS and IPSAS so that financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. This reduces consolidation adjustments for mixed groups.

We support removal of the extant exchange or non-exchange distinction, but we do not agree with the three categories of revenue transactions as proposed in the CP. We believe it is appropriate to apply the principles of IFRS 15 to all transactions which contain sufficiently specific performance obligations. In our view, such transactions should be accounted for using the proposed public sector performance obligation approach (PSPOA) that is based on the five-step revenue recognition model in IFRS 15.

Preliminary View 2

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

We agree that revenue transactions that do not contain sufficiently specific performance obligations should be accounted for under a residual standard or a residual section of a standard, based on the applicable parts of IPSAS 23. As mentioned above, we do not agree with the categorisation of revenue transactions into A, B and C.

Specific Matter for Comment 1

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

We have no specific comments on (a) or (b). Areas in IPSAS 23 that we understand to be challenging, broadly speaking, are:

- The initial distinction between whether a transaction is exchange or non-exchange.
- Tripartite arrangements. These do not meet the definition of an exchange transaction because they are not a 'direct' transaction. However in all other ways they have the substance of an exchange transaction.
- Transactions that include both an exchange component and a non-exchange component. This is particularly evident in transactions like university fees for example, where a degree is received but the amount paid by the student is only a small portion of the total cost to taxpayers.
- Determining whether a provision in law, regulation or other arrangement is enforceable through legal or administrative processes, and thus is in fact a stipulation (restriction or condition).
- Agreements where funding is to be used in a specific time period ("time requirements") but no other stipulations. The absence of a 'use or return' condition gives rise to revenue at the point at which the funds are receivable. It can be problematic where the associated costs related to the funding are recognised in a different reporting period. Despite the disclosure of such unexpended funds, many users do not understand the substance of the transaction and this can have unintended consequences for the entity concerned such as reductions in future funding.

Preliminary View 3

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

As per our response to PV1, we believe the PSPOA should be applied to all transactions which contain sufficiently specific performance obligations. As previously noted, we do not agree with the categorisation of revenue transactions into A, B and C.

Specific Matter for Comment 2

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 – Identify the binding arrangement**
- Step 2 – Identify the performance obligation**
- Step 3 – Determine the consideration**
- Step 4 – Allocate the consideration**
- Step 5 – Recognise revenue**

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, explain your reasons.

We agree with broadening the requirements in the IFRS 15 five-step approach, and the proposals for how they could be broadened. We encourage the IPSASB to consider further broadening step 2 so that the construction or acquirement of an asset meets the definition of a performance obligation. This would enable capital grants to also be accounted for using the PSPOA. Also see our response to SMC5.

Specific Matter for Comment 3

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;
- (b) Option (c) – Classify time requirements as a condition;
- (c) Option (d) – Classify transfers with time requirements as other obligations; or
- (d) Option (e) – Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

As previously noted, we do not agree with the categorisation of revenue transactions into A, B and C. In our view, the model for revenue recognition should be based on whether there are sufficiently specific performance obligations. We agree that a time requirement does not create a performance obligation and does not meet the definition of a liability in the IPSASB Conceptual Framework. Therefore such transactions should be accounted for under a residual standard or a residual section of a standard based on the applicable parts of IPSAS 23.

Our preference is for option (d) – such revenue transactions should be accounted for as ‘other obligations’ so the revenue can be deferred. We note that ‘other obligations’ are provided for in paragraph 5.27 of the IPSASB Conceptual Framework where an obligation does not satisfy the definition of an element. This would convey to users of the financial statements that the entity has resources that are intended for use in subsequent reporting periods. This avoids the unintended consequences that are discussed in our response to SMC1.

Option (e) also makes sense conceptually, but our preference is to keep the accounting treatment as simple as possible so that users understand the substance of the transaction.

Specific Matter for Comment 4

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange / non-exchange distinction?

- (a) Yes
- (b) No

Please explain your reasons.

No. We support removal of the distinction between exchange revenue and non-exchange revenue because it causes challenges that are discussed in our response to SMC1.

Preliminary View 4

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB’s Preliminary View 4? If not, please give your reasons.

We agree with the IPSASB’s preliminary view.

Specific Matter for Comment 5

- (a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them.
- (b) Do you have any proposals for accounting for capital grants that the IPSASB should consider? Please explain your issues and proposals?

This is one area that the AASB had to work through in its project. Capital grants are explicitly separately addressed in AASB 1058 and revenue is recognised as and when obligations are satisfied, instead of upon receipt. The challenge arises because the obligation is to construct or

acquire an asset, not to deliver goods or services. Therefore this does not meet the definition of a performance obligation so the transaction is technically out of scope of IFRS 15. We note that the accounting treatment of capital grants under AASB 1058 is the same as it would be under IFRS 15. In our view, the definition of performance obligation should be further broadened so that the capital grants could be accounted for using the PSPOA. Also see our response to SMC2.

Specific Matter for Comment 6

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in kind; or**
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or**
- (c) An alternative approach.**

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

We support the option to recognise revenue from services in kind (and the associated expense) where they can be reliably measured and those services would have been purchased if they had not been donated. Given the amount of volunteer services provided to the sector and the inherent issues in determining fair value, we believe additional research and cost-benefit analyses should occur before any mandatory requirements are introduced.

User needs would be better met by disclosure of non-financial information in this regard. Increased transparency as to how reliant on volunteer services the public sector is would better facilitate policy decisions. This is particularly so for those entities where without volunteers, governments may need to step in (eg essential services such as ambulance and fire).

Preliminary View 5

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under the Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

We agree that universally accessible services and collective services impose no performance obligations on the resource recipient. However, we do not agree that such transactions should be accounted for using the Extended Obligating Event Approach (EOEA). In our view, universally accessible services and collective services have similar characteristics to social benefits and therefore should be considered in conjunction with the Social Benefits project. We note that ED 63 is proposing to use an Obligating Event Approach (OEA) for the recognition of social liabilities.

Preliminary View 6

The IPSASB is of the view that, because there is no obliging event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

There are varying views as to whether the existence of legislation (or similar) that provides for such services to be delivered establishes an obligating event. These are discussed in ED 63. We encourage the IPSASB to consider the decisions made in the social benefits project in the development of an approach for universally accessible services and collective services.

Preliminary View 7

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

The model for expense recognition does not necessarily have to mirror the revenue recognition approach. Whilst using the PSPOA is conceptually sound for expense transactions with performance obligations, it poses a number of challenges in practice. The primary issue is information availability. The PSPOA is reliant on the resource recipient providing reliable reporting of the achievement of performance obligations to the resource provider. Our preference is to keep the accounting treatment as simple as possible. Grants in particular are made with no expectation that any funds will be returned. Therefore, in our view these types of transactions should be expensed as the commitment to provide the resource is entered into.

Preliminary View 8

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectable identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

We agree with the IPSASB's preliminary view for statutory receivables. Statutory receivables do not generally have performance obligations so the PSPOA would not apply to such transactions. It is challenging to determine fair value for such transactions, and face value is more understandable to users than fair value. However, this approach may not be appropriate for other types of non-contractual receivables. Initial recognition of other types of non-contractual receivables would depend on the applicable revenue recognition model.

Preliminary View 9

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

We agree with the IPSASB's preliminary view for statutory receivables. It appears to be the most workable in practice of the three approaches proposed in the CP. However, this approach may not be appropriate for other types of non-contractual receivables. Subsequent measurement of other types of non-contractual receivables would depend on the applicable revenue recognition model.

Specific Matter for Comment 7

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfilment Approach**
- (b) Amortised Cost Approach**

**(c) Hybrid Approach; or
(d) IPSAS 19 requirements?
Please explain your reasons.**

Subsequent measurement of non-contractual payables would depend on the applicable expense recognition model. But the Cost of Fulfilment Approach (CFA) is our preference because social benefits are non-contractual payables and the CFA is consistent with the proposals in ED 63.

Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 117,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.



ACT
Government

Chief Minister, Treasury and
Economic Development

Mr John Stanford
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
United States of America

Dear Mr Stanford

Consultation Paper: Accounting for Revenue and Non-Exchange Expenses

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on IPSASB Consultation Paper (CP) – *Accounting for Revenue and Non-Exchange Expenses*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC broadly agrees with the scope of this CP and supports updating guidance on non-exchange transactions in light of IFRS 15 *Revenue from Contracts with Customers*. HoTARAC agrees with the IPSASB's proposed categorisation of these transactions and strongly suggests the IPSASB consider Australia's standard on Income for Not-for-Profit Entities and the application of the principles of IFRS 15 *Revenue from Contracts and Customers* and IFRS 9 *Financial Instructions* to non-exchange transactions in their deliberations.

The attachment to this letter sets out HoTARAC's response to the specific matters for comment and preliminary views. If you have any queries regarding our comments, please contact Peter Gibson from the Commonwealth Department of Finance on +61 2 6215 3551 or by email to peter.gibson@finance.gov.au.

Yours sincerely

David Nicol
Chair

Heads of Treasuries Accounting and Reporting Advisory Committee
/ 2 January 2018

General Comments

HoTARAC notes that the IPSASB has built upon work undertaken by the South African standard setter in 2012.

The Australian domestic standard setter has recently issued a new standard for non-exchange revenues, applicable from 1 January 2019, which incorporates many of the issues raised in this consultation paper, including the application of IFRS 15 *Revenue from Contracts and Customers* and IFRS 9 *Financial Instruments* to non-exchange transactions and the measurement of balance sheet items resulting from these transactions¹. HoTARAC recommends the IPSASB consider this in their review of IPSAS 23 *Revenue from Non-Exchange Transactions*.

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

HoTARAC agrees.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

HoTARAC agrees.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

HoTARAC jurisdictions currently apply a domestic Australian standard to non-exchange revenues that has similar revenue recognition points to IPSAS 23. HoTARAC's experience is that non-exchange revenue is generally recognised at the point the cash is received and this may not match the timing of the expenditures the revenue funds.

- (a) HoTARAC jurisdictions do not have many social benefits funded through social contributions.

¹ AASB 1058 *Income of Not for profit entities* (AASB 1058)

<http://www.aasb.gov.au/Pronouncements/Current-standards.aspx>. Guidance on the application of IFRS 15 and IFRS 9 to non-exchange transactions: http://www.aasb.gov.au/admin/file/content105/c9/AASB2016-8_12-16.pdf

- (b) HoTARAC has found that it can be very difficult to reliably estimate tax revenues on an accrual basis where tax collections occur over a number of periods. The current and new income standards for not-for-profit entities allow the expedient of recognising taxes on a quasi-cash basis (when the cash is received or an assessment issued) where a reliable accrual measurement is not possible.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 -Identify the binding arrangement (paragraphs 4.29 - 4.35);

Step 2 -Identify the performance obligation (paragraphs 4.36 - 4.46);

Step 3 -Determine the consideration (paragraphs 4.47 -4.50);

Step 4 -Allocate the consideration (paragraphs 4.51 -4.54); and

Step 5 -Recognize revenue (paragraphs 4.55 -4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

HoTARAC agrees with using the five-step approach to performance obligation. HoTARAC strongly suggests the IPSASB consider Australia's application of the principles of IFRS 15 to the public sector.

HoTARAC suggests that the IPSASB carefully consider the extent to which remedies other than a refund obligation represent enforceable performance obligations (paragraph 4.32). As governments typically have ongoing funding arrangements and the ability to enact legislation, the effect of this paragraph may be that government is always able to enforce a performance obligation. For example, a government may give ongoing funding to charitable organisations. This should not give rise to an enforceable performance obligation simply because the government may not continue funding in the future.

HoTARAC suggests the IPSASB more fully explore third party beneficiaries (paragraph 4.26(b)).

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

HoTARAC agrees.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b)-Require enhanced display/disclosure;
- (b) Option (c) -Classify time requirements as a condition;
- (c) Option (d) -Classify transfers with time requirements as other obligations; or
- (d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

HoTARAC would favour Option (b). HoTARAC does not believe that time requirements would, in isolation, be sufficient to create enforceable performance obligations. HoTARAC recommends revenues be allocated on the basis of established IPSAS accounting principles and caution be exercised in attempting to match revenue and expenses.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a)-Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No

Please explain your reasons.

HoTARAC favours Option (b) in SMC 3, so additional guidance on exchange/non-exchange transactions would not be necessary. However, if the IPSASB were to proceed on recognising exchange and non-exchange transaction on a different bases, additional guidance to distinguish between the two would be useful.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

HoTARAC agrees. HoTARAC recommends considering the Australian guidance of paragraph 15 of AASB 1058 *Income of Not-for-Profit Entities*. HoTARAC recommends guidance be based on sound accounting principles.

Specific Matter for Comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants?
If you think that there are other issues with capital grants, please identify them.

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?
Please explain your issues and proposals.

(a) HoTARAC considers the IPSASB has identified the main issues.

(b) As per the response above, a performance obligation approach should be taken.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

(a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or

(b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or

(c) An alternative approach.

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

HoTARAC favours approach (b). HoTARAC's view is that where the definition of an asset is met, this should be recognised in the financial statements provided reliable measurement criteria are met and the item is material. HoTARAC favours using the criteria of paragraph 5.9(a), that the asset is recognised where the services are purchased if they had not been donated.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

HoTARAC agrees.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

HoTARAC agrees.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

HoTARAC agrees, but notes grantors may have difficulties in determining the extent to which a grantee has satisfied a performance obligation unless this information is periodically reported.

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

HoTARAC does not agree. HoTARAC suggests the IPSASB consider treating contractual and non-contractual receivables the same way. Current IFRS 9 (being considered for adoption by the IPSASB under ED 62 *Financial Instruments*) requires trade receivables to be measured at transaction price less an allowance for impairment and other receivables to be measured at fair value.

HoTARAC notes the difficulties in estimation raised in paragraph 7.14, but believes this simply reflects the uncertainty in any estimation of future cash flows. As with other estimates, the preparers must judge whether the estimate is sufficiently reliable to include in the financial statements.

In respect to 7.15, surely the discount rate is the government's borrowing rate?

HoTARAC does not accept the argument of paragraph 7.18 that measuring at face value promotes accountability. The role of the primary financial statements is to present a true and fair view of the financial position of the entity. If the IPSASB believes that information on uncollectible amounts is important as an accountability mechanism, this can be disclosed in the notes.

HoTARAC does not follow the argument that receivables arising from sovereign power differ from other legal obligations. HoTARAC suggests that the IPSASB provide a clearer explanation.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

HoTARAC suggests non-contractual receivables be subject to the same measurement requirements as contractual receivables. HoTARAC does not understand the logic in using face value for initial recognition and fair value subsequently.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfilment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

Consistent with previous responses, HoTARAC suggests measuring non-contractual payables (as distinct from provisions) in the same way as other financial liabilities using a financial instruments approach.

HoTARAC is of view that if different models are used for contractual balance sheet items (fair value and amortised cost), non-contractual liabilities of similar complexity may also require different measurement models.

John Stanford
Technical Director
International Public Sector
Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2
CANADA

Lausanne, December 21, 2017

Swiss Comment to

Consultation Paper Revenues and Non-Exchange Expenses

Dear John,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to Consultation Paper Revenues and Non-Exchange Expenses. We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments for the Consultation Paper in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP



Prof Nils Soguel, President



Evelyn Munier, Secretary

Swiss Comment to Consultation Paper Revenues and Non-Exchange Expenses

Swiss Comment to

Consultation Paper Revenues and Non-Exchange Expenses

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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPCP has discussed the CP Revenues and Non-Exchange Expenses and comments as follows.

2. General Remarks

Generally speaking, this CP provides a good basis for discussion. Nonetheless, the SRS-CSPCP would like to draw attention to some matters, which would have to be considered in a revised standard.

In this CP revenues are divided into exchange and non-exchange revenues. However, as for the expenses this distinction is missing and only non-exchange expenses are referred to. The SRS-CSPCP is aware that exchange expenses are to be found in various IPSASs, because there are various types of consideration. Nonetheless it wishes that in the introduction to a new IPSAS 23 and for the sake of completeness it be mentioned that both on the expense and the revenue side there are elements with or without exchange.

Furthermore, the SRS-CSPCP would have wished that accounting for tax revenue had been dealt with in more detail. The estimation of tax receipts based on the taxable event principle, i.e. the accounting for tax revenues in the year of the taxable event is expensive and sometimes imprecise. Additionally if the variation in the amount to be recognized is not material and/or if the cost benefit relationship is unfavorable, it should be made possible to refrain from this principle. Of course tax revenues as such are always important. But in view of these three elements (likelihood of imprecision, materiality and cost benefit relationship), the SRS-CSPCP would welcome it if the revised standard were relaxed somewhat in respect of the taxable event principle when it comes to accounting for tax receivables.

The IPSASB has adopted the 5-step model of IFRS 15. The first step in this model refers to "identify the contract". In the public sector, however, there are more binding arrangements than real contracts. The SRS-CSPCP therefore welcomes the fact that the IPSASB has renamed the first step of the Public Sector Performance Obligation Approach (PSPOA) as "identify the binding arrangement". In this way all agreements of a public entity are included.

The consideration of capital grants and of non-monetary grants in the new IPSAS 23 is welcomed by the SRS-CSPCP. It would, however, be desirable to describe these benefits more precisely and to add examples. This applies in particular for general subventions and capital grants, the receipt of which is linked to certain conditions. It would for example be interesting to know how repayments of subventions/capital grants are to be treated. Such repayments are possible in Switzerland in various areas.

The SRS-CSPCP is also of the opinion that major changes, as proposed in this CP by the use of the Performance Approach, should be made only if as a result the accounting would be significantly improved, because such changes always involve major costs for the reporting entities.

In reading this CP the SRS-CSPCP has also noticed that the various proposals for revising IPSAS 23 focus rather on the statement of financial position; but again for the management of a public entity it is the statement of financial performance that is the more crucial factor. This aspect should be better reflected in the future standard.

3. Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and*
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.*

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

The SRS-CSPCP agrees with the IPSASB's proposal. It welcomes above all the replacement of IPSAS 11.

4. Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

The SRS-CSPCP agrees with this proposal. However, the question arises how this is to happen and above all how income and profit taxes are to be treated. As mentioned already under the General Remarks, the taxable event principle confronts the users with major problem of estimation. Despite all the precautions that can be taken such estimates are inevitably subject to material errors.

5. Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or*
- (b) Taxes with long collection periods.*

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

Re b) The taxable event principle, as stipulated in IPSAS 23, confronts a public entity with great challenges. For the preparation of the financial statements and also for drafting the budget, revenue from the income and wealth taxes and the corporate income and capital taxes can only be estimated. Thus it cannot be excluded that when designing the estimation model and when deciding over the necessary assumption the preparer introduces a certain degree of arbitrariness and therefore adjusts to the desired result.

Another topic, which should be dealt with in IPSAS 23, is non-monetary grants, both from the view of the donor and that of the recipient. Examples of such grants are the provision of employees, of premises or of real estate. Further guidance should also be offered, when an interest-free loan is granted by the reporting entity.

Capital grants should also be dealt with in a revised IPSAS 23. Here too the recipient side and the donor side should be described in separate chapters. The SRS-CSPCP's wishes on this topic are explained in Specific Matter for Comment 5.

6. Preliminary View 3 (following paragraph 4.64))

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

In principle the Public Sector Performance Obligation Approach (PSPOA) is an interesting approach. However, the SRS-CSPCP doubts whether this approach could help to overcome the existing delineation problems.

The SRS-CSPCP is of the opinion that Category B transactions can continue to be classified as exchange or non-exchange transactions. One could also supplement the definition by considering whether the transaction is "with performance" or "without performance". This would make the distinction clearer.

For the SRS-CSPCP it is obvious that with this PSPOA the IPSASB is pursuing convergence with IFRS 15. Generally, the SRS-CSPCP supports such convergences. But in this case it is of the view that it is not worthwhile undertaking an expensive change in the system of classification; in particular because even with this new approach delineation problems arise.

7. Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 - Identify the binding arrangement (paragraphs 4.29 - 4.35);

Step 2 - Identify the performance obligation (paragraphs 4.36 - 4.46);

Step 3 - Determine the consideration (paragraphs 4.47 - 4.50);

Step 4 - Allocate the consideration (paragraphs 4.51 - 4.54); and

Step 5 - Recognize revenue (paragraphs 4.55 - 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

As mentioned in Preliminary View 3 the SRS-CSPCP is of the opinion that for Category B transactions PSPOA should not be applied. However, in principle the SRS-CSPCP agrees with convergence with IFRS 15. For Category C transactions, the 5 Step model of IFRS 15 should be applied.

8. Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

(a) Option (b) - Require enhanced display/disclosure;

(b) Option (c) - Classify time requirements as a condition;

(c) Option (d) - Classify transfers with time requirements as other obligations; or

(d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

The SRS-CSPCP wonders how "time requirement" is to be interpreted. It would like that the IPSASB gives more precise explanations and definitions. Concerning the options proposed, the SRS-CSPCP is of the opinion that only option (c) should be considered.

Option (b) is rejected, because the Notes are not part of the financial statements and the objective cannot be to require the disclosure of accounting facts in the Notes.

Option (d) is rejected for while it is compatible with the possibilities offered by the Conceptual Framework the above mentioned options can be used as well. Thus considering the feasibility of the other options there is no sufficient reason to apply option d).

Finally, Option (e) is rejected by the SRS-CSPCP, because recognition through equity is in conflict with accounting principles and because for public entities the statement of financial position is not as important as the statement of financial performance.

In this CP it is pointed out that Option (c) is not compatible with the Conceptual Framework. The SRS-CSPCP is of the opinion that this is at least disputable. But should the IPSASB conclude that the Conceptual Framework would have to be revised, the SRS-CSPCP would not rule out this development.

9. Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) - Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No

Please explain your reasons.

The SRS-CSPCP is of the opinion that the Option (c) chosen should not be combined with disclosure in the Notes. As already mentioned in the response to Specific Matter for Comment 3, elements should not be disclosed in the Notes but recognized in the financial statements.

10. Preliminary View 4 (following paragraph 5.5))

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

The SRS-CSPCP fully agrees that capital grants should be addressed in a separate chapter.

11. Specific Matter for Comment 5 (following paragraph 5.5)

1. Has the IPSASB identified the main issues with capital grants?

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

2. Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

- a) The SRS-CSPCP is of the opinion that the IPSASB has not considered all important issues related to capital grants.
- b) Details are lacking as to how a capital grant must be recognized over its useful life and that the grant must be recognized symmetrically by the payer and the recipient (e.g. in the interest of consolidation or of the statistics)

12. Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or*
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or*
- (c) An alternative approach.*

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

The SRS-CSPCP is actually of the opinion that approach (b) should be compulsory, for reasons of comparability and transparency. It is however aware that this alternative is in part difficult to implement. In the revised IPSAS 23 it should therefore be pointed out that for practical reasons approach (b) does not have to be applied where the materiality principle is not satisfied and if the cost benefit relationship is unfavorable.

13. Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligor Event Approach,

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

The SRS-CSPCP agrees with this statement.

14. Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered. Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

The SRS-CSPCP agrees with this statement.

15. Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue. Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

The idea would in fact be good, but it is not practical, as this would lead to various different approaches to accounting for expense, with a multitude of possibilities. Such a situation should be avoided. The application of PSPOA on the expense side is difficult, because it requires (too) much information. This is the case particularly if a third level or a third-party benefits from a grant, which is frequently the case in the public sector. This is also mentioned by the IPSASB in Paragraph 6.34 of the CP.

As the SRS-CSPCP rejects PSPOA on the revenue side, but considers that expense and revenue should be treated in the same way, it also rejects this approach on the expense side.

16. Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

The SRS-CSPCP agrees with this statement.

17. Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

The SRS-CSPCP is of the view that the Fair Value Approach should not be used for such receivables (e.g. tax receivables). Tax receivables should be treated in the same way as receivables for services.

18. Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;*
- (b) Amortized Cost Approach;*
- (c) Hybrid Approach; or*
- (d) IPSAS 19 requirements? Please explain your reasons.*

The SRS-CSPCP is of the opinion that such payables are to be measured in the same way as other payables, i.e. following the Amortized Cost Approach.

Lausanne, December 14, 2017

**Comments and suggestions IPSAS Consultation Paper for
Accounting for Revenue and Non-Exchange Expenses**

Task force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII

January 12, 2018

The IPSAS CP asks the following questions in its REQUEST FOR COMMENTS. The responses prepared by the Task Force IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are presented hereafter.

The IRSPM A&A SIG, CIGAR Network and EGPA PSG XII are three research networks that focus on Public Sector Accounting. The Task Force is made up of 16 researchers from these networks. The responses being presented are based on an analysis of the Consultation Paper, the IPSASB Conceptual Framework, relevant IPSAS, and various published research papers on the subject. Following various meetings and discussions, the members of the Task Force have reached the following common conclusions and suggestions.

The views expressed in this document represent those of the members of the Task Force and not of the whole research community represented by the networks, and neither of the Institutions/Universities with which they are affiliated.

**Comments and suggestion considering the IPSASB CP for
Accounting for Revenue and Non-Exchange Expenses**

Core assumptions

We are of the opinion that, in general, public sector entities require public sector specific principles and standards that properly accommodate public sector specificities. As such, when public sector transactions resemble those taking place in the private sector, then principles and standards may be kept as aligned as possible. However, for public-sector-specific transactions, we are in favour of standards that are not adapted artificially from private sector accounting and we think there is a need to seek options that best fit the public sector. This core thesis underpins our proposals and recommendations herein.

Moreover, in our view, disregarding the revenue recognition principle may produce unwanted effects as it would generate “technical” surpluses and deficits. Although these effects would be neutral taking a long-term perspective, they may prove misleading for constituents and other users on a year-by-year basis. For example, constituents would not easily understand that a deficit is reported simply because funds that were intended to be used in the year had already been recognised as revenue in previous years.

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts*, with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB’s Preliminary View 1? If not, please give your reasons.

Comment:

Agree.

In general, achieving a convergence between IASB’s and IPSASB’s standards could be useful for

consolidation purposes in countries where commercially-oriented entities provide reports based on IFRS. This approach does make sense in the case of exchange transactions. Otherwise, particularities of the public sector should prevail. Coherently, such a convergence can be considered appropriate for revenue originating from the Category C transactions, which are based on commercial terms. However, it should be taken into account that the current version of IPSAS 11 also addresses non-commercial contracts, which should be considered as Category B transactions (if this Category is retained – see our comments on PV 3 and SMC 2) or as Category A transactions.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions does not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Comment:

Agree.

We would suggest providing additional guidance concerning the identification of the taxable event¹, taking into account the distinct characteristics of the main public sector entities, such as central government, local governments, and their agencies. (See also SMC 4).

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

Comment:

A further area to be considered is providing additional guidance regarding taxes and fines with short collection periods (refer to answer to PV8).

Further clarification would be helpful on the accounting treatment of financial support provided on other than arms-length terms, as these might be seen to contain a non-exchange component. Such guidance might include concessionary loans, the deferral or release of loan repayment obligations and the giving of guarantees to third parties that provide finance to public sector organisations.

Several other non-exchange transactions frequently occurring in governments (e.g., the taking over of debts of other governments or organisations; providing funds to establish/create a new governmental or non-profit organisation; transfers of the member states to international organisations such as NATO, EU, UN; and so on) would require additional guidance.

Finally, additional guidance regarding voluntary contributions (with or without conditions attached) received by international organisations could be provided².

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

¹ Capalbo, F. and Sorrentino, M. (2013), Cash to Accrual Accounting: Does it mean more control for the public sector? The case of Revenue from Non-Exchange Transactions, *Risk governance & control: financial markets & institutions*, vol. 3, no. 4, pp. 28-35.

² Bergmann, A. and Fuchs, S. (2017), Accounting Standards for Complex Resources of International Organizations, *Global Policy*, vol. 8, supplement 5, pp. 26-35.

Comment:

Disagree for the following reasons.

(a) IPSASB defines the so-called Category B transactions as a hybrid class of exchange and non-exchange whereby performance obligations or stipulations or time requirements are emphasised. The accounting treatment proposed in the CP is that for exchange transactions, following the PSPOA approach in IFRS 15. In our opinion, this should not be a category apart from A and C, but belongs to the Category A Non-exchange transactions, whereby certain additional characteristics are considered and regulated.

(b) The PSPOA does not comprehensively tackle the issue of recognizing revenue over a time period. Furthermore, each of its five steps can cause several criticalities (see our response to SMC2 below).

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);

Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and

Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

Comment:

Disagree. It would often be difficult to apply in practice the five steps suggested by the CP, especially step no. 2 (identification of “distinct services”), for transactions that include a significant non-exchange component. We accept that public sector entities are capable of interpreting their relationships in ways that might fit the approach in IFRS 15, but we do not see this as the most natural or effective application in a public-sector setting.

Governments do not make deals like enterprises, which can agree almost freely on certain contractual binding arrangements and performance obligations implying price and thus revenue changes. Very often governments cooperate with other governments (e.g. local authorities) or with non-profit organizations based on legislation and regulations, which provide a framework including oversight activities in which the non-exchange transactions are conducted. Moreover, such public administration frameworks differ across countries and jurisdictions depending on constitutional laws and on the way governments are organized³. Furthermore, governments and non-profit organizations have fewer pure supplier-client relationships than private-sector enterprises; governments often cooperate by agency relationships in order to create public services and that is why they organize non-exchange activities. Therefore, it is difficult to apply IFRS 15 as a general reference for the wide variety of differently regulated public sector entities.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

(a) Option (b) – Require enhanced display/disclosure;

(b) Option (c) – Classify time requirements as a condition;

(c) Option (d) – Classify transfers with time requirements as other obligations; or

(d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

³ Ouda, H.A.G. (2016), A Practice-Relevant Approach for Revenues Recognition in the Public Sector Entities: A Practitioner's Perspective, *International Journal on Governmental Financial Management*, vol. XVI, no 2, pp. 52-67.

Please explain your reasons.

Comment:

Option b) can distort the performance measurement during a period if applied alone. In any case, disclosures cannot compensate for inadequate or inappropriate accounting. Additional disclosures may be useful in combination with other alternative options.

Option c) can create superficial liabilities.

Option d) might inflate liabilities; in fact, if there is no obligation to return any cash flows, they are not a liability but represent restricted funds. It is typical for governments to function as an agent on behalf of the society they represent and the resources they obtain are assigned to certain programs or objectives. Therefore, these resources are earmarked by allocating funds, which are not liabilities, but which are part of the net assets/equity. One can refer to the American governmental fund accounting system regulated by the US GASB (Governmental Accounting Standards Board).

Option e) can be adopted, although preferably without the use of and recycling in 'Other Comprehensive Income' (this expression would be misleading). We suggest using expressions like "Restricted Funds", to be considered as part of the net assets. This option allows the recognition of revenues over a period of time and their attribution to the period in which expenses for the provision of services occur. This solution, compared to the PSPOA, seems to better accommodate both the specificity of public sector entities and the revenue recognition principle. Indeed, it allows the recognition of revenues over more than one reporting period in those cases, very common in the public sector, in which binding agreements do not contain explicit promises about the distinct services to be delivered.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Comment:

Agree: Providing additional guidance could be useful.

More generally, providing "practical guides", where the distinct characteristics of the main public sector entities (central government, local governments, agencies, and so on) could be considered, would be useful. These guides could be provided in separate documents (not as an appendix of a standard) where different examples could help practitioners.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

Comment:

Agree: In most public sector entities or government levels, capital grants are material amounts and relevant to many public investments (e.g. in infrastructure).

Specific Matter for Comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them.

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

Comment:

(a) The main issues have been identified. Capital grants recognition could be connected to the rules established by the entity which provides the grants. For example, for EU Grants, condition of receipt would normally be related to adherence to rules. Once adherence is approved, the grant is given.

(b) IAS 20's requirements can somehow be considered as a reference, allowing recognition of capital grants as revenue on a systematic basis over the useful life of the asset financed by the grants. We suggest adopting this approach since it allows the capital grants to appear in a separate line and can then be tracked over time and compared across entities. Furthermore, this approach is particularly suited for governments, given that, differently from private firms, capital grants are a common way of funding the purchase of non-current assets.

However, the deferred capital grants should not be recorded as a liability, but as a 'Capital Grant Fund' as part of the net assets/equity. The receipt of the capital grant and its accounting treatment should be disclosed in the notes.

We are not in favour of adopting the alternative approach of IAS 20, which considers capital grants as a deduction from the cost of the asset. This would influence information that is useful for cost accounting purposes. Deducting the grant from the cost of the asset would produce a misleading representation of the government's asset base for accountability purposes. There are cases where we are interested about the cost of services, regardless of funding sources, for performance measurement and other purposes.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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

Comment:

The existing requirements (Option a) reduce the comparability of financial statements. In our view, the services in-kind are free and should not be accounted for in the general ledger since their cost does not really exist. This does not mean that services in-kind should not be reported: they can have important consequences and should be documented, explained and disclosed off-balance sheet. We would argue that in terms of making an analysis or to take management decisions, the 'valuation' of services in-kind is necessary, but not in the general ledger where only really existing costs should be recorded.

Option b) might provide an excessive discretionary power.

A possible alternative approach (Option c) could consist in identifying the value of services in-kind and disclose it in the notes if a public sector entity considers these services significant and necessary (as in the case of services the entity would otherwise purchase, which means that obtaining information about their cost should not be onerous). Estimating the value of services in-kind can be a form of reporting, but we argue that non-existent costs must not be included in the general ledger. Accordingly, this option would mean that the issue of measuring the value of services in-kind may become relevant for decision making purposes. But for accountability purposes disclosure about them off-balance sheet may make sense.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Comment:

Agree, but please note that there is no obligating event (see PV 6).

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Comment:

Agree.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

Comment:

Disagree: If grants, contributions and other transfers belong to the Category B transactions, according to our comment on PV 3, the PSPOA should be avoided.

Disagree with the view that treatment of expenditure has to mirror treatment of revenues. Recognition of revenues and expenses should reflect the essence of the transaction from the lens of each part that is involved. It is important that public sector entities' revenues are not anticipated and/or overstated. This is consistent with the principle of conservatism, although the problem goes beyond the respect of this principle, evoking a more general and careful deliberation on the approach adopted while recognising revenues and expenses⁴.

To clarify our point of view, in the Appendix, we refer to the 'Illustrative Examples' provided by the Board at the end of the Consultation Paper.

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Comment:

Agree with the initial recognition at face value (legislative amount).

It should be taken into account that one of the parties to the transaction is not "willing" (as also highlighted in the CP itself). This fact justifies that non-contractual and contractual receivables are treated differently. Moreover, sometimes a non-contractual receivable not only does not materialize, but may carry the risk of turning into a liability – for example, a court fine that is subsequently not paid and the transgressor ends up serving a prison sentence instead.

Agree with impairment methodology. If there is a high likelihood that significant amounts could be uncollectible, both non-contractual receivables and revenue should not be recognised (the entity could provide information in the notes). Otherwise, non-contractual receivables can be recognised at the

⁴ Biondi, Y., Tsujiyama, E., Glover, J., Jenkins, N.T., Jorgensen, B., Lacey, J. and Macve, R. (2014), 'Old Hens Make the Best Soup': Accounting for the Earning Process and the IASB/FASB Attempts to Reform Revenue Recognition Accounting Standards, *Accounting in Europe*, vol. 11, no. 1.

legislative amount, and any amount expected to be uncollectible is disclosed and taken into account at subsequent measurement.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

Comment:

Disagree.

The cost approach, using undiscounted cash flows, is more straightforward, maybe less costly and less sensitive to political manipulation. The argument that adopting this approach implies that non-contractual receivables are not considered as financial instruments seems to be not so relevant, taking into account the characteristics of non-contractual receivables compared to those of contractual receivables (refer to our response to PV8).

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

Comment:

Support IPSAS 19 requirements, which are straightforward enough. Moreover, as in the previous case (see comments on PV8 and PV9), it is not relevant that non-contractual payables are not considered as financial instruments: after all, non-contractual payables are not similar to financial instruments because not all parties have necessarily entered "willingly" into the transaction.

Other comments

Chapter 6

- *Table on page 49: Universal Education does mitigate effect on social risks – should read "Yes"*
- *Re-6.29 and 6.34: In a tripartite situation, Steps 2 and 5 become complicated and onerous for the resource provider.*
- *Re-6.33: The allocation and bundling is subjective.*

Appendix

GENERAL (NON-SPECIFIC) GRANT: A national government transfers CU10 million to a local government to undertake social programs.

We find this example to be somewhat strange. It appears that there are no conditions at all placed on the local government for the supply of its services and that the grant is not returnable, under any circumstances, to the national government. We think that, in practice, some conditions / requirements would exist either in administrative law or in the outline terms for the payment of the grant. Furthermore, this appears to be a revenue grant that we would expect to be provided annually by the national government and not three years in advance. Nevertheless, we have taken the terms of the grant as given in the consultation paper.

Resource recipient (Local government) perspective (revenue recognition)			Resource provider (National government) perspective (expenses recognition)		
<i>Journal entries we support:</i>			<i>Journal entries we support:</i>		
Dr.	Receivables	10	Dr.	Expenses	10
Cr.	Restricted fund	10	Cr.	Liabilities	10
Dr.	Restricted fund	3.33			
Cr.	Revenue	3.33			
<p>Rationale for our position. In our view, the alternative treatment based on the recognition of this amount immediately and entirely as revenue (see our comment on SMC 3), is incorrect. The transfer is actually the provision of a “restricted fund”, being part of the net assets instead of being a liability. It is not a liability because there are no performance obligations on the local government and the funding is not repayable to the national government.</p> <p>In effect, the local government is receiving funding for three years of its activities as a lump sum rather than three individual annual grants.</p>			<p>Rationale for our position. In our view, when there is an agreement on the transfer as a non-exchange transaction, the provider immediately undergoes the expense of CU 10 million.</p> <p>The alternative treatment, based on the recognition of an asset, is incorrect. The national government has no asset, since the amount does not yield further benefit to the national government and it is non-refundable with no attached performance obligations (according to the terms of the example).</p> <p>We would also argue that “mirror thinking” may facilitate consolidation, but this is not the issue here. Maybe, the Board could take into consideration consolidation issues when drafting guidance.</p>		

A SPECIFIC GRANT (COVERING VACCINATIONS, WITH NO RETURN OBLIGATION): A national government signs an agreement to make a cash transfer of CU 5 million to a health service entity providing a vaccination program.

Resource recipient (Health service entity) perspective (revenue recognition)	Resource provider (National government) perspective (expenses recognition)
<i>Journal entries we support:</i> Dr. Cash	

MULTI-YEAR RESEARCH GRANT (WITH OBLIGATION TO RETURN ANY UNUSED CONSIDERATION): A national government will provide a research university with a grant of CU 25 million for publishing each of the 5 years' research results. Each instalment is payable at the start of each year.

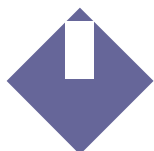
This example includes an even allocation of grant payments and reports / other deliverables, leading to a smooth pattern of revenue & expense recognition. It seems more likely that the allocation would be 'lumpy' with more reporting later in the project and it is not clear whether this would change the pattern of revenue & expense recognition.

Resource recipient (Research University) perspective (revenue recognition)	Resource provider (National government) perspective (expenses recognition)
<i>Journal entries we support:</i> Dr. Receivable	

Date:

Signed:

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January 15, 2018

Mr. John Stanford

Technical Director

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Comments on Consultation Paper “*Accounting for Revenue and Non-Exchange Expenses*”

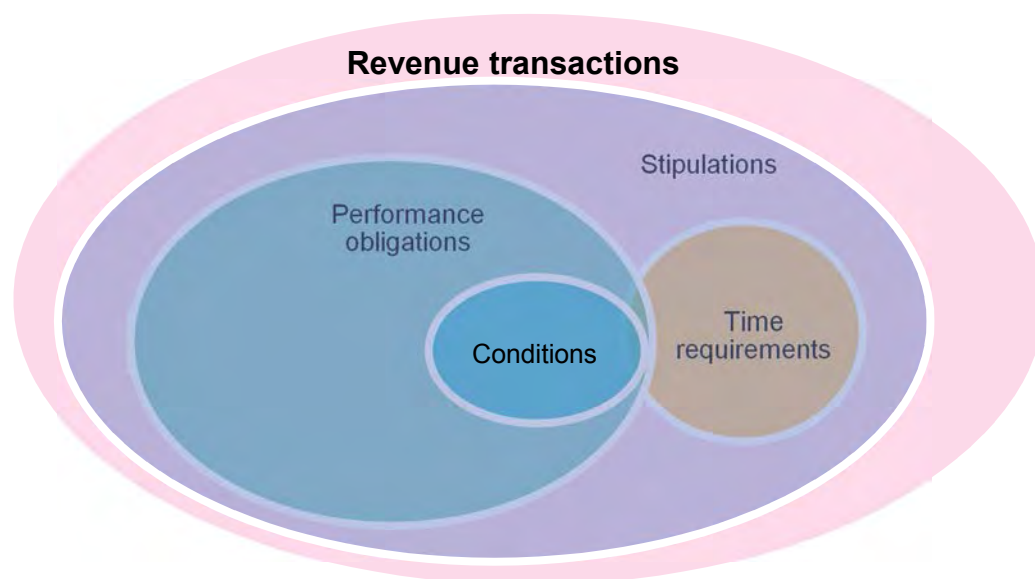
Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (hereafter “JICPA”) highly respects the International Public Sector Accounting Standards Board (hereafter “IPSASB”) for its continuous effort to serve the public interest. We are also pleased to comment on the Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* (hereafter “CP”). On the very last page of our comment is the “Other” section, where we have additionally shared our comments other than those already discussed in Preliminary Views and Specific Matters for Comments.

Firstly, we understand the concepts discussed in the CP are related to each other as shown in the following diagram. That being said, we suggest that revenue transactions for which performance obligations can be identified should apply a Public Sector Performance Obligation Approach (hereafter “PSPOA”), representing the IPSASB-proposed Category C and also part of Category B transactions, including those with conditions on transferred assets. All other revenue transactions, which represent the IPSASB-proposed Category A transactions and also part of Category B transactions, should apply an updated IPSAS 23, *Revenue from Non-Exchange Transactions* (hereafter “IPSAS 23”).

We agree with the IPSASB’s view to categorize revenue transactions into three, namely Category A, B, and C, for discussion purposes. However, we are concerned that the three-category concept could become too complicated for preparers when implementing a new standard. We recommend that the

finalized standard should simply require revenue transactions to be accounted for under two categories instead of three depending on whether or not an arrangement contains a performance obligation. See the following for detailed discussions.



Preliminary View 1 (following paragraph 3.8) :

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

Comment:

JICPA agrees with the IPSASB's view.

To provide users with the information that they need for decision-making and accountability purposes, it is essential that the financial statements based on IPSAS converge with IFRSs with any unnecessary differences being diminished.

As IFRS 15, *Revenue from Contracts with Customers* (hereafter "IFRS 15") is a revenue recognition standard significantly different from IAS 18, *Revenue*, we believe it would be useful to replace the existing revenue recognition standards with a new IPSAS primarily drawn from IFRS 15.

In practice, however, we assume that it would be quite difficult to determine whether a transaction falls under Category B or Category C simply based on commercial terms. If a PSPOA were applied

to Category B transactions in a new standard, we believe there would be no accounting difference and no need for drawing a distinction between Category B and Category C.

Based on above, we highly recommend that the finalized standard should simply require revenue transactions to be accounted for under two categories instead of three depending on whether or not an arrangement contains a performance obligation.

Preliminary View 2 (following paragraph 3.9) :

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Comment:

JICPA agrees with the IPSASB's view in general.

We further suggest certain transactions under Category B should also be put into Category A, provided that a PSPOA is applied to Category B transactions. Such transactions represent those that contain stipulations but no performance obligations under the PSPOA.

This is based on our understanding that restrictions, particularly time requirements, subcategorized under stipulations generally do not create legally-binding enforceable rights and obligations, meaning that performance obligations are not identified in such revenue transactions. In such cases, revenue would be recognized when resources are received or the right to receive resources are established. However, if we put such revenue transactions in Category B, application issues with IPSAS 23 will still remain unsolved under the PSPOA when time requirements are imposed on a transaction. Therefore, we highly recommend that transactions with restrictions be included in Category A instead of Category B and IPSAS 23 be updated accordingly in order to resolve the accounting treatment issue for time requirements.

Note that we agree with the IPSASB's view to categorize transactions with conditions, the other sub-category of stipulations, in Category B, given that they contain a return obligation and thus would generally create legally-binding enforceable rights and obligations. In other words, as performance obligations can be identified in transactions with conditions, we believe it would be appropriate to categorize them under Category B.

Specific Matter for Comment 1 (following paragraph 3.10) :

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

Comment:

N/A

Preliminary View 3 (following paragraph 4.64) :

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

Comment:

JICPA agrees with the IPSASB's view in general.

We believe public sector's revenue recognition should draw on the IFRS 15 performance obligation approach to the extent possible in order to address the on-going convergence issue with the IASB literature as well as to align with the IPSASB, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (hereafter "IPSASB Conceptual Framework").

If an updated IPSAS 23 were applied to Category B transactions, issues of ambiguity in making the exchange/non-exchange determination would still remain unsolved. Even if an additional guidance were provided for IPSAS 23, entities would still have to go through the process of exchange/non-exchange determination each time. Needless to say, the accounting for revenue recognition would be considerably different depending on the exchange/non-exchange distinction.

As a practical example, sewage treatment in Japan is usually operated by a single entity, which treats both rainwater and raw sewage. The treatment cost for rainwater is publicly funded whereas that for raw sewage is paid by beneficiaries. As revenue transactions for rainwater treatment and raw sewage treatment somehow contain performance obligations or stipulations, both transactions would fall into Category B. That being said, if an updated IPSAS 23, or Approach 1, were applied to the entity, the rainwater treatment would be accounted for as a non-exchange transaction, whereas the raw sewage treatment as an exchange transaction. Furthermore, revenue would be recognized at a point in time for rainwater treatment transactions, as public funds received for the treatment usually do

not impose a return obligation. On the other hand, revenue would be recognized over time as performance obligations are satisfied for raw sewage treatment transactions.

We believe that the sewage treatment entity's performance obligation to provide water treatment services over a certain period is the same for both rainwater and raw sewage, regardless of whom the treatment is funded from. Therefore, we do not think it is appropriate to apply Approach 1, which will lead to different accounting treatments between rainwater and raw sewage transactions just because they are funded from different sources. We believe Approach 2, the PSPOA, better represents the nature of the revenue transaction, as revenue would be recognized over time as performance obligations are satisfied for both rainwater and raw sewage transactions.

Specific Matter for Comment 2 (following paragraph 4.64) :

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);
- Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);
- Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);
- Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and
- Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?
If not, please explain your reasons.

Comment:

Step 1 – Identify the binding arrangement

JICPA agrees, in general, with the IPSASB's view to broaden the term "contract" and relabel it to "binding arrangement."

We further recommend that binding arrangements in a public sector referred to in the CP should be limited to those with resource providers. This is because if all binding arrangements are to be included, this may cause unnecessary confusion among preparers in determining the scope of binding arrangements for revenue recognition purposes. In case of the beneficiary being the resource provider, the beneficiary should be scoped in as the resource provider. As described as "contracts with customers," IFRS 15 requires the identification of a "customer" to determine the scope of contractual arrangements. However, given the nature of transactions in the public sector, we do not think the term "customer" is appropriate. Therefore, we suggest the term "resource providers" be included in the requirement for the purpose of identifying binding arrangements.

We agree with the IPSASB's proposal, insisting that not only all conditions but also certain stipulations meet the definition of performance obligations. Provided that identifying whether or not

a performance obligation has substance would be extremely difficult in practice for preparers, we highly recommend the IPSASB put together all the issues identified and considered through the development of the CP into illustrative examples. However, we do not recommend explicitly addressing the interpretation of enforceability as a requirement in IPSAS, as each jurisdiction may have different interpretations of enforceability or the ability of taking remedies.

For the same reason, we would like to comment on paragraph 4.33, which says that enforceability would not extend to reputational risk. We do not think this sentence should be included in the requirement due to the following: Assume there is an NPO, as an example, whose main resource is provided from a specific sponsor in the form of donation. If the NPO used donated resource in a way not intended by the sponsor, who then decided to call a halt to further donation resulting in the NPO's ability to continue as a going concern, we understand that there would lie a constructive obligation, if not a legal obligation, in such circumstances.

Step 2 – Identify the performance obligation

According to paragraph 4.45, a time requirement in and of itself does not create a performance obligation and therefore transactions with time requirements should be included in Category A. On the other hand, according to paragraph 3.3(b), transactions with time requirements have to be categorized under Category B, given that time requirements are also part of stipulations. As the IPSASB's views seem to contradict each other, we suggest that the IPSASB clarify the categorization for transactions with time requirements.

That being said, we believe that transactions with time requirements should be included in Category A as per paragraph 4.45 and should be discussed for their accounting outcomes within this category. As noted in paragraph 4.45, a time requirement in and of itself generally does not create a performance obligation. Therefore, even if under Category B, revenue with only time requirement limitation should be recognized immediately when receivable in accordance with the PSPOA requirement, which would be of little help in solving time-requirement-related issues identified under the existing IPSAS 23.

Step 3 – Determine the consideration

JICPA agrees with the IPSASB's view.

Step 4 – Allocate the consideration

JICPA agrees with the IPSASB's view.

Step 5 – Recognize revenue

JICPA agrees with the IPSASB's view.

Specific Matter for Comment 3 (following paragraph 4.64) :

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;
- (b) Option (c) – Classify time requirements as a condition;
- (c) Option (d) – Classify transfers with time requirements as other obligations; or
- (d) Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

Comment:

JICPA is in favor of Option (e).

We do not think Option (b), which requires enhanced display/disclosure, would be appropriate enough to provide certain users of the financial statements with the information that they need. Especially, when multi-year grants are provided in a number of arrangements, we assume not only users would have a hard time analyzing and digesting information only through enhanced display/disclosure, but also preparers could find it burdensome to keep track of numerous transactions with time requirements.

Option (c) should not be adopted either, because the proposed requirement would give rise to a liability, which would then not meet the liability definition in the IPSASB Conceptual Framework, causing further confusion among users and preparers.

We recommend due consideration be given to Option (d), which proposes classifying transfers with time requirements as other obligations. Although the concept of “other obligation” has been introduced in the IPSASB Conceptual Framework, it is a fairly new concept and has never been used at a standards-level. Once we accept the use of other obligation, such circumstance can fuel random use, which may significantly impair the understandability of users of the financial statements.

Further, as noted in paragraph 4.4 of the IASB, *Conceptual Framework for Financial Reporting* (hereafter “IASB Conceptual Framework”), the definition of net assets/equity is “the residual interest in the assets of the entity after deducting all its liabilities,” meaning that whatever remains after deducting all liabilities should be accounted for as net assets/equity. Thus, for the purpose of converging with the IASB literature, net assets/equity rather than other obligations would better be used for the classification of transfers with time requirements.

In addition, Exposure Draft 62, *Financial Instruments* proposes that subsequent changes in cash flow hedges or financial assets measured at fair value through net assets/equity should be recognized in net assets/equity and subsequently recycled through the statement of financial performance. Given

such circumstances, we are afraid that if the CP is the only place where other obligations are used, it may lack consistency with other IPSASB literature.

That all being said, we believe Option (e) is the best available option. Option (e) suggests that transfers be recognized in net assets/equity, meaning that if not meeting the liability definition, it would directly go to net assets/equity. We understand that this option does not go against the IPSASB Conceptual Framework and also ensures the alignment with the IASB Conceptual Framework. Furthermore, as revenue is recognized in the time period in which the resource provider intended them to be used through the recycling process, we understand that the accounting outcome is consistent with the requirements under IPSAS 1, *Presentation of Financial Statements*.

Lastly, we recommend that the IPSASB restart the discussion of introducing the notion of other comprehensive income, which is not yet explicitly approved for use under the IPSASB Conceptual Framework. This is because a number of IASB literature have recently been developed based on the concept of “other comprehensive income,” and with an objective of convergence with IFRS, it appears that the IPSASB is also starting to implicitly introduce the notion into IPSAS, including the newly published Exposure Draft 62, *Financial Instruments*.

Specific Matter for Comment 4 (following paragraph 4.64) :

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Comment:

JICPA's answer is (a).

We expect that appropriate additional guidance would make the exchange/non-exchange distinction much easier. In Japan, for example, there are difficulties in making the exchange/non-exchange categorization in the following transactions:

- Service is directly provided to a customer by an entity, but the entity is not expected under a practice to collect the entire cost for the service from the customer. Should this revenue transaction be accounted for as an exchange or a non-exchange transaction? (e.g. amount collected from preschool users, admission fees and tuition fees for public schools)
- Service is directly provided to a customer by an entity, and the entity is expected under a practice to collect the entire cost for the service from the customer. However, revenue from customers is actually not enough for the entity to cover entire costs, and thus the entity has to receive funding

from taxation or other resources to compensate for the unfavorable balance. Should this revenue transaction be accounted for as an exchange or a non-exchange transaction? (e.g. public hospitals receiving copayments and medical fees from patients and insurers, water supply entities and sewage treatment entities receiving usage fees)

- An entity receives budgets from local governments, not for compensating the loss-making but for the funding of specific items, such as the entity's fixed costs and capital expenditure. These budgets together with payments from beneficiaries for direct costs are essential to ensure the entity's breakeven. Should these revenue transactions be accounted for as an exchange or a non-exchange transaction? (e.g. railways and highways whose laying costs for rail tracks and roads are funded by local governments and the operation, including maintenance and fee collection, is conducted by a third-sector organization)
- Would there be a difference in the accounting of payments received for medical costs depending on the type of resources, such as when they are fully out-of-pocket, partially covered by public insurance, partially covered by private insurance (i.e. contract between a patient and an insurer), and publicly funded.
- When an entity achieves breakeven through payments from beneficiaries as well as investment income from its own fund, would the payments from beneficiaries be accounted for as an exchange transaction? Further, if the entity is below the breakeven point in a lower interest environment, would there be a difference in accounting treatments in the following circumstances: when the entity draws down from its own fund without receiving compensation; and when the entity receives compensation for the shortage, representing the difference between actual and presumed interest rates stipulated in a program?
- If a loss-making business on a consolidated basis consists of a business which successfully finances its operation entirely through beneficiary payments and another business which continues to receive funding in order to compensate for the unfavorable balance, can we separate the businesses and account for one of them as exchange transactions? (e.g. Japan National Railways separated into Honshu, which is the main island, and the other three islands)

In addition to above, an entity is required to "directly give" "approximately equal value" to another entity in order to recognize an exchange transaction. As our last point, we recommend specific guidance be provided to address the issue of "directly giving." For example, if there are two separate entities within a consolidated group and one collects service fees and the other provides services, would this mean revenue is accounted for as non-exchange transactions on a stand-alone basis and exchange transactions on a consolidated basis?

Preliminary View 4 (following paragraph 5.5) :

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

Comment:

JICPA does not agree with the IPSASB's view, assuming that a PSPOA is applied to Category B transactions.

If capital grants are considered to be revenue transactions, not capital transactions, we believe such transactions should fall into Category B in the context of the CP discussion. Further, if a PSPOA were applied to Category B transactions, capital grants would generally contain identifiable performance obligations, such as "acquire capital assets" and "acquire capital assets for the use of delivering specific services to beneficiaries." That being said, we recommend that capital grants should be accounted for under general principles of performance obligations rather than by setting capital grants aside from other revenue transactions in Category B and applying different rules.

At the same time, we think it would be useful for constituents if the IPSASB could provide illustrative examples, not an IPSAS standard, to address accounting issues for capital grants. One of the major issues is when funders of capital grants specify that services should be provided over a certain period using capital assets acquired through the provided capital grant. An illustrative example would be extremely helpful in such cases to understand how performance obligations can be identified for services provided after acquiring the capital asset.

Specific Matter for Comment 5 (following paragraph 5.5) :

(a) Has the IPSASB identified the main issues with capital grants?

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

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

Comment:

(a) In addition to the issues identified by the IPSASB in the CP, JICPA believes that there is an issue of determining whether capital grants are revenue transactions or capital transactions, referred to as ownership contributions.

In Japan, we see some capital grants being provided by a controlling entity to its controlled entity. In such cases, capital grants are usually accounted for as capital transactions instead of revenue transactions and recognized in net assets.

As noted in paragraph 5.33 of the IPSASB Conceptual Framework, ownership contributions are defined as "inflows of resources to an entity, contributed by external parties in their capacity as

owners, which establish or increase an interest in the net financial position of the entity.” Based on this definition, we can argue that all grants and donations provided by a controlling entity to its controlled entity are capital transactions.

We highly recommend that the IPSASB explicitly address the issue within IPSAS, given that different accounting treatments are applied dependent on whether a transaction is a revenue transaction or a capital transaction.

- (b) We understand that capital grants provided by a controlling entity to its controlled entity are practically the same in nature with properties contributed in-kind provided by a controlling entity to its controlled entity. Therefore, we recommend that the IPSASB develop a new requirement or guidance for the accounting treatment of capital grants, which aligns with the accounting treatment of properties contributed in-kind.

Specific Matter for Comment 6 (following paragraph 5.9) :

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognized in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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

Comment:

JICPA suggests the IPSASB should apply (a).

We think services in-kind differ from goods in-kind, given that services in-kind are consumed immediately when received by a recipient entity, except for certain transactions. That is to say, accounting outcomes for services in-kind are quite different from those for goods in-kind because even when services in-kind are immediately recognized as revenue, the same amount of expense will often be recognized, offsetting any impact on surplus or deficit and the statement of financial position. Although we agree with the argument that the existence of options reduces comparability between entities, the disadvantage of such comparability issue is minimal provided that there is no impact on surplus or deficit and the statement of financial position on a net basis.

Another issue is that if we require all services in-kind to be recognized, there may be difficulties in obtaining reliable measurements as acknowledged in IPSAS 23.BC 25. In such cases, it is more

likely that the cost of obtaining such information is greater than the benefit to users of the information. Further, if we take the approach of restricting services in-kind to be recognized to those that “would have been purchased if they had not been donated,” we may be able to diminish the measurement difficulties to some extent; however, judgement will be required to determine the type of services that “would have been purchased if they had not been donated.” In such cases, we are afraid the comparability issue will still remain unsolved.

Based on the above, we recommend that the IPSASB should retain the existing requirements for services in-kind and address the comparability issue by introducing enhanced disclosures for services in-kind.

Preliminary View 5 (following paragraph 6.37) :

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB’s Preliminary View 5? If not, please give your reasons.

Comment:

JICPA agrees with the IPSASB’s view on collective services.

However, we recommend that considerable deliberation be given on universally accessible services. As defined in paragraph 6.7, universally accessible services are “those that are made available by a government entity for all individuals and/or households to access, and where eligibility criteria (if any) are not related to social risk.” Under this definition, we understand that beneficiaries who wish to receive service have the right to receive one provided by public sector entities. In other words, public sector entities cannot refuse to provide services to beneficiaries as long as beneficiaries are willing to receive one, which means that public sector entities have an obligation to provide services to beneficiaries.

For example, in Japan, there are cases where both government schools and some private schools are providing the same education program. We generally assume that a performance obligation is imposed on private schools to provide education services. If we say that no performance obligations are imposed on government schools providing the same program, this we believe would contradict the accounting for private schools. Therefore, we disagree with the IPSASB’s view, which insists that none of universally accessible services impose performance obligations in any case.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of nonexchange transactions should be expensed as services are delivered.
Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Comment:

As commented on Preliminary View 5, JICPA disagrees with the IPSASB's view, insisting that universally accessible services impose no performance obligations in any case. However, if the Extended Obligating Event Approach were applied to such transactions, we would agree with the IPSASB's Preliminary View 6, proposing that there is no obligating event and thus resources applied should be expensed as services are delivered.

We also agree with the IPSASB's view on the accounting treatment for collective services.

Preliminary View 7 (following paragraph 6.42) :

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.
Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

Comment:

JICPA does not agree with the IPSASB's view.

We agree with the IPSASB's view that grants, contributions and other transfers that contain performance obligations or stipulations should be included in Category B transactions. However, we do not agree with the IPSASB's view of applying a mirrored approach for such Category B non-exchange expenses, even when a PSPOA is adopted for Category B revenue transactions. This is because, practically speaking, it would be quite difficult for resource providers to determine whether resource recipients have satisfied performance obligations. That being said, if we force preparers to use the PSPOA as a mirrored approach to account for Category B non-exchange expenses, it is more likely that the cost for preparers will exceed the benefit to users of the information.

Another point to be discussed regarding the PSPOA is about issue of asset recognition. Unlike the Extended Obligating Event Approach, a resource provider may not be able to say under the PSPOA that it still controls an asset already transferred to a resource recipient, satisfying the recognition criteria as an asset in the statement of financial position, just based on the fact that the resource recipient has not yet fulfilled performance obligations. We highly recommend that the IPSASB carefully consider this point throughout the deliberation.

We do not believe that it is ensured under the IPSASB Conceptual Framework that the determination of a liability for a resource recipient (i.e. whether it meets the liability recognition criteria) always

mirrors that of an asset for a resource provider (i.e. whether it meets the asset recognition criteria).

Preliminary view 8 (following paragraph 7.18) :

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Comment:

JICPA agrees with the IPSASB's view.

As proposed in paragraph 7.18, we believe option (b) promotes accountability and is in the public interest. We also agree that when uncollectible amounts are significant, prepares need to provide explanations somehow. Sovereign power is exercised through the use of constitutionally and legally sanctioned authority and taxation receivables are receivables based on legislation. Therefore, it can be argued that tax payers and fines-payers are obligated to pay the amount levied. Based on above, we believe that the initial fair value of receivables arising from the exercise of sovereign power should be the amount owed.

We have our own practice in Japan where tax payments receivable is separately accounted for as receivables in the statement of financial position with any amount expected to be uncollectible identified as an allowance for doubtful accounts. We believe our current practice is aligned with the IPSASB's proposed approach.

Preliminary View 9 (following paragraph 7.34) :

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

Comment:

JICPA disagrees with the IPSASB's view to use the Fair Value Approach.

The Amortized Cost Approach should be applied instead, provided that taxation receivables will still be "receivables" that are based on legislation, even if the receivables do not meet the definition of a financial instrument as they are non-contractual in nature. That is to say, we do not think there need be any accounting differences in subsequent measurements of receivables, dependent on whether a receivable is based on legislation or commercial laws.

Further, many of the non-contractual receivables in the public sector, including taxation receivables, are held solely for the purpose of collecting payments of principal and interest on the principal amount outstanding, not for the purpose of trading or exchange. Thus, we can argue that taxation

receivables and other receivables based on legislation should be accounted for in the same way as for receivables based on commercial laws, which represent those that meet the definition of a financial instrument under IPSAS 28, *Financial Instruments: Presentation*. In the same context, we can further argue that the accounting for subsequent measurements should also be treated in the same way for both receivables based on legislation and those based on commercial laws, provided that both meet the recognition criteria for financial assets carried at amortized cost under the principles in IPSAS 29, *Financial Instruments: Recognition and Measurement*. That being said, we do not support the IPSASB's proposal requiring preparers to fair value receivables at each reporting date, as the cost of obtaining such fair value information will likely be higher than the benefit to users of the information.

We do not agree with Approach 3, using principles in IPSAS 26, *Impairment of Cash-Generating Assets* for subsequent measurements of non-contractual receivables, as we do not think it is appropriate to differentiate the accounting for receivables based on legislation and those based on commercial laws for subsequent measurement purposes.

Specific Matter for Comment 7 (following paragraph 7.46) :

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

Comment:

JICPA recommends applying Approach (b) – the Amortized Cost Approach.

As we commented on Preliminary View 9, we suggest applying the Amortized Cost Approach for non-contractual receivables. Thus, we believe a mirrored approach should be used to account for non-contractual payables by applying the same approach.

Other**1. Comments on Chapter 2**

- In paragraph 2.26(c), it is stated “but the entity has an enforceable right.” Please confirm whether it should be reworded as “and the entity has an enforceable right.”
- Please note that illustrative indicators for the principal or agent determination as noted in paragraph 2.30 need to be updated to reflect the clarifications made to IFRS 15 regarding the principle versus agent guidance. Please see detail at IFRS 15.B27.

2. Comments on Chapter 4

- According to paragraph 4.30, the CP states that “IFRS 15 provides that a performance obligation approach is only appropriate when a contract explicitly states the goods or services an entity has promised to transfer to a customer (the performance obligations).” We appreciate if you could refer to the actual IFRS 15 paragraph number that supports your statement. It is our understanding that IFRS 15 provides that performance obligations identified in a contract may not be limited to the goods or services explicitly stated in the contract.
- The definition of a transaction price under IFRS 15 is provided in paragraph 4.47. According to IFRS 15, though, we understand a transaction price is not limited to the amount of “consideration in a contract,” but should also consider facts and circumstances other than the terms of the contract, such as circumstances where an entity has to accept a price concession based on its customary business practices.

3. Comments on Chapter 5

- In paragraph 5.5, it is stated “for delivery of those assets.” Please confirm whether it should be reworded as “for delivery of those services.”

4. Comments on Appendix A

- Provided as a comment for one of the issues regarding “Resolves difficulty with exchange/non-exchange determination,” it is stated as “the current requirement to distinguish between a restriction and a condition.” In the context of the discussion, please confirm whether it should be reworded as “the current requirement to distinguish between an exchange and a non-exchange transaction.”

Yours sincerely,

Shuichiro Akiyama

Executive Board Member – Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No. 15 of 1965)

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Registrar/Chief Executive
JOHN .I. EVBODAGHE, MBA, FCA

January 14, 2018

ICAN/R&T/ED/JAN/14/i/2018

The Technical Director
IPSASB-IFAC
529 Fifth Avenue, New York
NY 10017
USA

Dear Sir,

**RE: COMMENTS ON PROPOSED INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARD – ACCOUNTING FOR REVENUE AND NON-
EXCHANGE EXPENSES**

The Institute of Chartered Accountants of Nigeria (ICAN) has considered the above named Exposure Draft and is pleased to submit comments as follows:

Preliminary View 1 (following paragraph 3.8)

*The IPSASB considers.....Do you agree with the IPSASB's Preliminary view 1?
If not, please give your reasons.*

Response

Yes, we agree. Since category C transactions are revenue transactions arising purely on commercial terms, they should be aligned with the provisions of IFRS 15.

Preliminary View 2 (following paragraph 3.9)

Because Category A.....Do you agree with the IPSASB's Preliminary view 1? If not, please give your reasons.

Response

Yes, we agree, since Category A revenue transaction do not contain any performance obligations or stipulations, they fall under non-exchange transactions as currently defined by IPSAS 23. Therefore, any future update of IPSAS 23 as a result of reflecting consequential amendments by issuing new standard on revenue based on IFRS 15 provisions should be captured in the updated IPSAS 23.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details.....guidance you believe is needed

Response

One of the issues we have encountered in applying IPSAS 23 in Nigeria is on the treatment of counterpart fund. Counterpart fund is a fund set aside by the Federal Government placed in the custody of its relevant agency for onward disbursement to the beneficiary State and Local government, subject to the provision of a matching or equivalent fund by that beneficiary State or Local government for the accomplishment of a complete project objective. The fund is only given to the beneficiary State/local government after they have paid their own fund obligation to that agency.

The transaction from the perspective of the custodian agency is as to whether to report the counterpart fund from the Federal Government as a revenue (as being currently treated in Nigeria) in its statement of financial performance or as a liability. The IPSAS 23 to be updated should give clear guidance on the reporting of counterpart fund in the scenario.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers.....Do you agree with the IPSASB's Preliminary view 3? If not, please give your reasons.

Response

Yes, we agree that the public sector performance obligation approach should be used in accounting for category B transactions. This will ensure effectiveness and efficiency in public financial management especially in developing economies.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed.....Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

Response

Yes, we agree with the proposal on how each of the 5 steps under IFRS 15 could be broadened. The extensions in the proposal reflect peculiarities associated with the public sector.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to.....Please explain your reasons

Response

We would recommend option (e) – Recognise transfer with time requirements in net assets/equity and recycle through the statement of financial performance. This enables the matching of revenue transactions by public sector entities with the rendering of performance obligations associated with such revenue. It also enables transparency in tracking how such revenue initially recognized in net assets/equity are released through the statement of financial performance on fulfilling the obligation.

This option brings category B transaction treatment of revenue close to the principle of paragraph 82a of IAS1 on other comprehensive income session.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider.....Please explain your reasons

Response

- (a) Yes. Our basis is that provision of additional guidance on making the exchange/non exchange distinction together with option (e) would provide fuller information to the reader of entity's financial statement on the policy guiding the recognition and presentation of exchange and non exchange transactions in their financial statements.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers.....if not, please give reasons

Response

Yes, we agree. Having accounting for capital grant explicitly addressed within IPSAS will provide clarity and ensures better financial statement.

Specific Matter for Comment 5 (following paragraph 5.5)

- (a) *Has the IPSASB.....please identify them*
(b) *Do you have.....please explain your issues and proposals*

Response

- (a) No other issues
(b) No proposals

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider.....please identify that approach and explain it

Response

We consider that the IPSASB should modify requirements to require services in-kind that meet the definition of an asset to be recognized in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information. This approach would enable uniform reporting of economic benefits received by public sector entities.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of.....if not, please give your reasons

Response

Yes, we agree.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of.....if not, please give your reasons

Response

Yes, we agree.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of.....if not, please give your reasons

Response

Yes, we agree. This will create Consistency in non-exchange revenue and non-exchange expenses reporting.

Preliminary View 8 (following paragraph 7.18)

The Board considers.....if not, please give your reasons

Response

Yes, we agree with preliminary view 8. This option enables the recognition of legal or statutory amount receivable from provider of resources i.e.it is in accordance with the law of the entity's jurisdiction.

Preliminary View 9 (following paragraph 7.34)

The IPSASB is of.....if not, please give your reasons

Response

Yes, we agree with Preliminary View 9. Since non-contractual receivables are financial instruments, it would be logical to subsequently measure them at fair value in line with IPSAS 29 just as similar financial instrument at subsequent measurement.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement.....Please explain your reasons

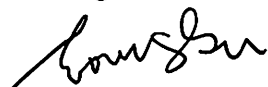
Response

Yes, we support the Hybrid Approach. This approach provides a wider framework for reporting non-contractual payables whether there is certainty or uncertainty in timing and/or amount of the payables. This would enable public sector entity to appropriately report all categories of non-contractual payables.

We thank the Board for the opportunity given to our Institute to contribute to this proposed standard.

Yours faithfully,

for: Registrar/Chief Executive

A handwritten signature in black ink, appearing to read 'Ben Ukaegbu', written in a cursive style.

Ben Ukaegbu, PhD, ACA

Deputy Registrar, Technical Services

January 15, 2018

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


**Re: The comments on the Consultation Paper,
Accounting for Revenue and Non-exchange Expenses**

Dear Mr. Stanford,

The Government Accounting and Finance Statistics Center (GAFSC) at the Korea Institute of Public Finance (KIPF) welcomes an opportunity to respond to the Consultation Paper *Accounting for Revenue and Non-exchange Expenses* issued by the International Public Sector Accounting Standards Board (IPSASB).

Please feel free to contact us if you have any questions regarding our comments set out in the following pages. You may direct your inquiries to the technical staff of GAFSC, Stella Sunjae Kim (sjkim@kipf.re.kr).

Faithfully,


Do-Jin Jung

Executive Director
GAFSC, KIPF

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

[Our comments] We agree to the IPSASB's view point.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

[Our comments] We agree to the IPSASB's view.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collections periods.

IF you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

[Our comments] No comments at this point.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector

Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

[Our comments] We agree to IPSASB's view. We believe that the PSPOA is a good method by which relevance and reliability of public sector financial information can be improved. However, because it may be very difficult for preparers to identify binding arrangements and performance obligations effectively, the IPSASB may need to come up with an alternative approach in such cases.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraph 4.29 – 4.35)

Step 2 – Identify the performance obligation (paragraph 4.36 – 4.46)

Step 3 – Determine the consideration (paragraph 4.47 – 4.50)

Step 4 – Allocate the consideration (paragraph 4.51 – 4.54)

Step 5 – Recognize revenue (paragraph 4.55 – 4.58)

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

[Our comments] We agree to IPSASB's view.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;
- (b) Option (c) – Classify time requirements as a condition;
- (c) Option (d) – Classify transfers with time requirements as other obligations; or
- (d) Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

[Our comments] No comments at this point.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No

Please explain your reasons.

[Our comments] No comments at this point.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons.

[Our comments] No comments at this point.

Specific Matter for Comment 5 (following paragraph 5.5)

- (a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them.
- (b) Do you have any proposals for accounting for capital grants that the IPSASB should consider? Please explain your issues and proposals.

[Our comments] No comments at this point.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kinds; or
- (b) Modify requirements to require services in-kinds that meet the definition of an asset to be recognized in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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

[Our comments] No comments at this point.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

[Our comments] We agree to the IPSASB's view.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

[Our comments] We agree to the IPSASB's view.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

[Our comments] We agree to the IPSASB's view. Since the PSPOA is applicable for Category B revenue transactions, we view that it is appropriate to apply the PSPOA for non-exchange expenses with performance obligations. A platform needs to be provided for the exchange of information between resource providers and resource recipients about the results of obligations performed.

Preliminary View 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

[\[Our comments\]](#) [No comments at this point.](#)

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

[\[Our comments\]](#) [No comments at this point.](#)

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

[\[Our comments\]](#) [No comments at this point.](#)

JANUARY 15, 2018

IPSASB CONSULTATION PAPER: REVENUE & NON EXCHANGE EXPENSES

CONSULTATION RESPONSE



MANJ KALAR



Manj has over 20 years' experience working in public sector, focusing on implementation of accrual accounting across UK central Govt departments and the Whole of Government Accounts consolidation. She has advised a number of jurisdictions on implementing accrual accounting.

Manj has particular interest in supporting governments to address the practicalities of implementing IPSASs.



International Public Sector Accounting Standards Board
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CANADA

Submitted electronically

January 2018

Dear IPSASB secretariat

Revenue & Non exchange expenses Consultation Paper

I am delighted to share my comments on this comprehensive consultation paper on revenue and non-exchange expenses.

Revenue

The paper reviews the three existing IPSASs for revenue in light of IFRS 15 that is now applicable. The paper offers practical options that maintain convergence with IFRS (as far as possible) and will ensure gaps in the current suite of IPSASs for revenue are addressed (e.g. capital grants.)

Non Exchange Expenses

This is an area that has not previously been addressed in the suite of IPSASs. The proposed approach is consistent with IPSASB's conceptual framework and is practical, delivering understandable information to the user of the financial statements.

Specific responses to the IPSASB's preliminary views and specific matters for comment are included in Annex A.

Overall it is a comprehensive paper with various considered options. The focus on practicalities in implementing the standards as well as understanding for the user of the financial statements is particularly welcome.

Thank you for the opportunity to comment on the IPSASB's. If there are any questions, please do not hesitate to contact me.



Yours sincerely,

Manj Kalar

Principal consultant



Annex: Detailed response to the Consultation paper

Preliminary View 1

IPSAS 9 and IPSAS 11 should be withdrawn and replaced by a new IPSAS drawn primarily from IFRS 15

I support this proposal.

Both IPSAS 9 Revenue and Non exchange expenses and IPSAS 11 Construction contracts were originally based on the IASs (IAS 18 and IAS 11 respectively) as there are exchange transactions of equal value. Following the issue of IFRS 15 both IPSAS 9 and 11 are no longer converged with IFRS. Ensuring convergence is achieved is one of the key aims of the strategy as it is a big issue in jurisdictions where there is mixed reporting (i.e. both IPSASs and IFRSs.)

Preliminary View 2

Because Category A transactions do not contain any performance obligations or stipulations the IPSASB consider these transactions should be accounted for under an updated IPSAS 23

I support this proposal.

Specific matter for comment 1

Please provide details that you have encountered in applying IPSAS 23 together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions
- (b) Taxes with long collection periods

It would be very helpful if updated IPSAS 23 provides guidance on taxes with long collection periods. This is a common issue due to the nature of certain tax regimes e.g. Corporation Tax. IPSASB guidance should provide advice on estimation policies. This would ensure best practice and some consistency in approach.



Preliminary View 3

Category B transactions should be accounted under a Public Sector Performance Obligation Approach

I support this proposal.

Specific matter for comment 2

The IPSASB has proposed broadening the scope of IFRS 15 five step approach to facilitate applying a performance obligation approach to category B transactions to the public sector.

Do you agree with this approach?

I support this proposal. It is a logical and pragmatic approach that will ensure, as far as is reasonable and practicable, convergence between IFRS and IPSASs is maintained.

Specific matter for comment 3

If the IPSASB were to implement Approach 1 and update IPSAS 23 for category B transactions, which option would you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – require enhanced display/disclosure
- (b) Option (c) – classify time requirements as a condition
- (c) Option (d) – classify time requirements as other obligations
- (d) Option (e) – recognise transfers with time requirements in the net assets/equity and recycle through the statement of financial performance

Transactions with time requirements often present an issue in maintaining transparency for the user of the accounts to understand the funds flow to and between government bodies.



Of the 4 options the most transparent disclosure would be option (e) - recognise transfer with time requirements in the net assets/equity and recycle through the statement of financial performance. This most accurately reflects the current position re use of resource and matching these to the period to which the funds relate.

This will require careful monitoring and some may consider this to be too onerous. If this is the general consensus, then the second option which is considered to be the most practical solution would be option (b) – require enhanced display/disclosure.

The main consideration for the financial statements should be to provide information to the users. If option (e) is not favoured, then option (b) delivers transparency.

Specific matter for comment 4

Do you consider that the option that you have identified in SMC3 should be used in conjunction with Approach 1 option (a) – provide additional guidance on the exchange/non-exchange distinction.

- (a) Yes
- (b) No

(a) Yes.

Additional guidance is always welcomed.

However, the reality is that it is not possible to cover all scenarios and some judgement may be needed. There could, as a result, lead to different application across different jurisdictions. This would fail to address the issue.

Therefore, it is best to follow something that is more principles based.

Preliminary View 4

The IPSASB considers that the accounting for capital grants should be explicitly addressed within IPSASs.

I support this proposal.



Specific matter for comment 5

- (a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues, please identify these?
- (b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

There are many practical issues with recording capital grants. In addition to the scenarios outlined in para 5.4, one area where additional clarity would help is where the grantor records this as revenue and the grantee records the same as capital. This may be an issue where appropriations (grants) are separated into capital and revenue, as is the case in the UK. Identifying and completing these for intra-group eliminations for the government's consolidated account presented many issues.

Any guidance to address this would be very helpful to preparers of the financial statements.

Specific matter for comment 6

Do you consider the IPSASB should:

- (a) retain the existing requirements for services in kind which permit but do not require recognition for services in kind
- (b) modify requirements to require services in kind to meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves quantitative characteristics and takes account of the constraints on information or
- (c) an alternative approach

Please explain your reasons

The IPSASB should follow option (b) insofar as it is practicable and possible. This will address a gap in the information users' need to understand the entity's operations

**Preliminary View 5**

Non-exchange transactions related to universally accessible services and collective services have no performance obligations. Therefore, these non-exchange transactions should be accounted for under the Extended Obligating Event Approach

I agree with this approach for the reasons stated in the preliminary view.

Preliminary View 6

Because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

I agree with this approach for the reasons stated in the preliminary view.

Preliminary View 7

Grants, contributions and other transfers that contain performance obligations or stipulations should be accounted for under the Public Sector Performance Obligation Approach

I agree with the IPSASB's preliminary view

Preliminary View 8

Initial measurement of non-contractual receivables should be at the face value (legislated amount) of the transaction with any amount expected to be uncollectible identified as an impairment

I agree with the IPSASB's preliminary view.



It is always best to measure at fair values (and impair as is necessary.) This is consistent with other IPSASs and ensure convergence with the IFRSs.

Specific matter for comment 7

For subsequent measurement of non-contractual payables do you support:

- (a) cash or fulfilment approach
- (b) amortised cost approach
- (c) hybrid approach or
- (d) IPSAS 19 requirements

Please explain your reasons

I support option (a) cash or fulfilment approach for the reasons stated in the consultation paper – this approach is relatively straightforward to apply and produces understandable information. These are important considerations for jurisdictions applying the standards.

Thank you for the opportunity to comment.



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15 January 2018

Dear Sir/Madam

COMMENT ON CONSULTATION PAPER: ACCOUNTING FOR REVENUE AND NON-EXCHANGE EXPENSES

The Technical Director

International Public Sector Accounting Standards Board
 International Federation of Accountants
 277 Wellington Street West
 Toronto, Ontario M5V 3H2 Canada

We welcome the opportunity to comment on Consultation Paper: *Accounting for Revenue and Non-Exchange Expenses*.

The Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses*, aims to address the gaps in literature and difficulties with applying the current requirements, as well as improve accounting for revenue and potential requirements and guidance for accounting for non-exchange expenses.

In part, we are supportive of the IPSASB's Consultation Paper: *Accounting for Revenue and Non-Exchange Expenses* but there are instances where we disagree with the IPSASB. Our responses to the preliminary views and specific matters for comment are listed below.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

KPMG Services Proprietary Limited


 Per : Werner Roetz

Director

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KPMG Services Proprietary Limited is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Services Proprietary Limited is not a Registered Auditor in terms of the Auditing Profession Act, 26 of 2005 and does not provide audit services as defined in Section 1 of this Act.

Registration number 1999/012876/07

Chief Executive: N Dlomu
 Directors: Full list on website

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.



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PRELIMINARY VIEWS & SPECIFIC MATTERS FOR COMMENT

Preliminary View 1 – Chapter 3.8

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and*
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.*

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

We agree that an IPSAS primarily based on IFRS 15 should be developed for revenue from exchange transactions and construction contracts, thereby addressing Category C transactions. It is always important for the IPSASB to mirror the requirements of IFRS for transactions that are similar for the public and private sectors.

We recommend that the proposed IPSAS take into consideration and address the complexities around the accounting of transactions with multiple goods and services in a single contract, identifying distinct goods and services, and the treatment of variable consideration.

It is not always clear whether collection of consideration is considered probable in the public sector, which is a requirement for a contract to exist. Guidance for such transactions should be provided in the proposed IPSAS.

We recommend that the standard clearly address how the IFRS 15 model will apply to construction contracts currently in the scope of IPSAS 11, specifically on the timing of revenue recognition based on how performance obligations are defined in a contract. The Consultation Paper (CP) appeared to focus on IPSAS 9 transactions.

Preliminary View 2 – Chapter 3.9

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

We agree that an updated IPSAS 23 should address Category A revenue transactions that do not contain any performance obligations or stipulations. If there is more than one standard there will be possible scope and definitional issues and it may also not meet the objectives the IPSASB set for this project (i.e. to eliminate the exchange vs non-exchange distinction). As a result, we recommend the IPSASB to update IPSAS 23 to maintain the important principles in IPSAS 23.

We suggest that clear guidance be provided on the accounting for these Category A revenue transactions. For instance, if there are no performance obligations then revenue should be



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recognised when it is received or receivable. Further, if there are no performance obligations/stipulations then disclosures only are likely to be impacted. It would be ideal that all revenue is addressed in a single standard using the same principles – although we acknowledge that practically it may be difficult to cover both IFRS 15 transactions and “non-exchange” transactions in a single standard.

Specific Matter for Comment 1 – Chapter 3.10:

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

(a) Social contributions; and/or

(b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

We are not aware of any issues in applying IPSAS 23 other than those which were identified by the IPSASB in the CP and the potential issues in the accounting approach for transactions with no performance obligations or stipulations.

Preliminary View 3 – Chapter 4.64:

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

In principle, the performance obligation approach is plausible. However, we disagree with IPSASB's Preliminary View to account for Category B transactions using the Public Sector Performance Obligation Approach (PSPOA) as this is a modified form of the IFRS 15 five-step revenue recognition approach, which already comes with a lot of complexities especially in identifying the appropriate elements of the five-step requirements. Further, a number of uncertainties exist regarding the approach. For instance, it is unclear whether the PSPOA will provide the necessary information to meet the objectives of financial reporting for the public sector. In practice there may be some challenges in identifying whether an arrangement is enforceable or whether there is a performance obligation – these could be addressed through the inclusion of examples. There will always be a requirement for judgment to be exercised. Par. 4.25 - 27 of the CP sets out some of the challenges with the PSPOA. These are valid challenges, however, these appear to relate to the nature of the arrangements, rather than the accounting principles.

We therefore suggest that an updated IPSAS 23 be applied to account for the Category B transactions instead of the PSPOA, although it is worthwhile exploring in more detail how the PSPOA could be adapted for the public sector.



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Specific Matter for Comment 2 – Chapter 4.64:

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 - Identify the binding arrangement (paragraphs 4.29 - 4.35);*
- Step 2 - Identify the performance obligation (paragraphs 4.36 - 4.46);*
- Step 3 - Determine the consideration (paragraphs 4.47 - 4.50);*
- Step 4 - Allocate the consideration (paragraphs 4.51 - 4.54); and*
- Step 5 - Recognize revenue (paragraphs 4.55 - 4.58).*

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

We mostly agree with the proposed broadening of the IFRS 15 five-steps as the requirements are more specific to the public sector. However, clear and extensive guidance must be provided in each of the steps because currently the five-steps are complex and may lead to more ambiguity in application.

Specific Matter for Comment 3 – Chapter 4.64:

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) - Require enhanced display/disclosure;*
- (b) Option (c) - Classify time requirements as a condition;*
- (c) Option (d) - Classify transfers with time requirements as other obligations; or*
- (d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.*

Please explain your reasons.

We favour Option (e) - *Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance* because this is in line with the IPSASB Conceptual Framework and addresses most of the current issues (as shown on the matrices). This option also allows for revenue recognition over more than one reporting period. In accordance with par. 4.7 of the CP, resources transferred without conditions prior to the reporting period for which they are intended to be used (i.e. those with just time requirements) give rise to revenue at the point at which they are receivable and the recipient controls those resources. This may result in undesirable accounting outcomes. The IPSASB would thus have to consider the different jurisdictions as the requirements may not be the same, as well as the expectation from these transactions i.e. explain the time requirements further.



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Specific Matter for Comment 4 – Chapter 4.64:

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) - Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Yes. This will assist in eliminating the ambiguity in accounting for these Category B transactions and it will be in line with the IPSASB Conceptual Framework.

Preliminary View 4 – Chapter 5.5:

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

We agree that accounting for capital grants should be explicitly addressed within IPSAS as this is consistent with IFRS which has a standard specifically for grants.

Specific Matter for Comment 5 – Chapter 5.5:

(a) Has the IPSASB identified the main issues with capital grants?

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

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

(a) We agree that the IPSASB has identified the main issues with capital grants.

(b) The IPSASB should consider providing guidance in accounting for a capital grant specific for the asset by either addressing the revenue recognition in the IPSAS or updating the Conceptual Framework.

Specific Matter for Comment 6 – Chapter 5.9:

Do you consider that the IPSASB should:

(a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or

(b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or

(c) An alternative approach.

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



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We are in favour of (b) - *Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information.* Control and value of the services was difficult to determine but with appropriate guidance to be provided in the updated IPSAS, this should no longer be an issue. The materiality or significance of the service to the entity's operations (delivering on the mandate) must also be considered. For example, guidance provided by the Accounting Standards Board (ASB) which develops the accounting standards for the public sector in South Africa recommends that service in-kind transactions that are significant and material to the operations of the entity should, under certain circumstances, be recognised in the financial statements.

Preliminary View 5 – Chapter 6.37:

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

We agree with the principles of the IPSASB's Preliminary View that these non-exchange transactions related to universally accessible services and collective services should be accounted for under The Extended Obligating Event Approach as this is in line with the IPSASB Conceptual Framework. That is to say, a liability should be recognised when the criteria in the Conceptual Framework are met, with the related expense. Further, an entity should recognise an asset if a condition with a return obligation exists, and once the condition is met it will be expensed. We recommend that this approach should also mirror the method to account for social benefit liabilities once the IPSASB issues the standard on Social Benefits. We, however, seek clarity on the types of transactions that the IPSASB proposes should be recognised with this approach.

Preliminary View 6 – Chapter 6.39:

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

We agree that resources applied for universally accessible services and collective services should be expensed as services are delivered because there is no obligating event related to these non-exchange transactions. The entity should not raise a liability if there is no present obligation to provide those services.



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Preliminary View 7 – Chapter 6.42:

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

We disagree with the IPSASB's Preliminary View for accounting for non-exchange expenses for the reasons stated above for revenue, under Preliminary View 3. Another issue is whether the resource provider has an asset (i.e. provided funding but for which performance obligations have not been delivered). There is not much discussion in the CP about whether an asset would exist in relation to unfulfilled performance obligations or what the nature of the asset might be (i.e. prepayment or financial asset, etc.). More guidance is required on how the PSPOA for expenditure might work in principle and in practice.

Preliminary View 8 – Chapter 7.18:

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

We disagree with the IPSASB's Preliminary View to measure non-contractual receivables at face value with any uncollectible amount identified as an impairment on initial recognition. The approach of accounting for non-contractual receivables at face value less impairment as it is not appropriate to assume that revenue will not be collected since the entity has an obligation to collect all revenue and this would be contrary to normal business principles. The IPSASB should consider if it would be more appropriate to initially present gross revenue due to government, and reflect uncollectability as a subsequent measurement event by recognising an impairment loss i.e. any initial impairment is identified, but not recognised.

Preliminary View 9 – Chapter 7.34:

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

We disagree that subsequent measurement of non-contractual receivables should use the fair value approach as it could be difficult to obtain fair values for these non-contractual receivables since there is no market for them, making the fair value approach inappropriate. A user would need information about the reasons for the underlying changes in fair value, e.g. changes due to market risk, credit risk, etc. and this information is not readily available. We recommend the amortised cost approach because similar financial instruments (contractual receivables) are measured at amortised cost and these instruments are not substantially different.



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Specific Matter for Comment 7 – Chapter 7.46:

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;*
- (b) Amortized Cost Approach;*
- (c) Hybrid Approach; or*
- (d) IPSAS 19 requirements?*

Please explain your reasons.

We support (a) - *Cost of Fulfillment Approach* as this is the amount the entity will have to pay to fulfil its obligations. The entity cannot impair its liabilities and can only record what it owes, and this approach represents the best estimate of the amount required to settle the obligation.

OTHER COMMENTS

Transitional arrangements

We recommend that the IPSASB considers including guidance on the transitional arrangements, in particular whether this will be applied prospectively or retrospectively and provide practical guidance in this regards. We also recommend the IPSASB to allow sufficient time before finalising guidance on revenue to learn lessons from the private sector, specifically regarding the implementation of IFRS 15.

Inclusion of application guidance and practical examples

Given the difficulties experienced by entities in practice to account for revenue and non-exchange expenses, we recommend that extensive application guidance and practical examples are included in any guidance developed as an outcome of this CP. Sufficient and appropriate guidance should be provided as to which of the categories revenue belongs to and ambiguity must be eliminated by providing an exhaustive list.



15 January 2018

Mr. John Stanford
International Public Sector Accounting
Standards Board
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submitted electronically through the IPSASB website

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Re.: Consultation Paper: Accounting for Revenue and Non-Exchange Expenses

Dear Mr. Stanford,

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on the Consultation Paper: Accounting for Revenue and Non-Exchange Expenses (hereinafter referred to as "the Consultation Paper").

This letter includes both general comments and comments on specific issues. We respond to the Specific Matters for Comment (SMCs) and the Preliminary Views (PV) in the appendix.

General comments

Support for the project

We support the IPSASB's project and agree with the majority of the IPSASB's Preliminary Views, although we question whether the extended obligating event approach is the relevant approach in determining liability recognition for universally accessible services and collective services. In this regard, we specifically refer to our comments on PV 5 in the appendix to this letter, where we discuss whether this approach should be modified in this context.

The IDW firmly supports this project being used as an opportunity to align revisions and any new standards to the IPSASB's recently completed

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feld, WP StB;
Dr. Daniela Kelm, RA LL.M.

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Conceptual Framework. In this context, we strongly encourage the IPSASB to ensure there is no accounting mismatch between the recognition of revenue related to social benefits (explicitly within the scope of this project) and social benefits- related expense (excluded from this project – but dealt with in ED 63) before finalizing either of these projects, and comment specifically on this issue below.

Comments on Specific Issues

Support for changing the categorization of revenue transactions

In our view, the Category A, B and C approach to revenue recognition discussed in the Consultation Paper is likely to result in more appropriate and useful financial information for both accountability and decision-making purposes than the current exchange vs non-exchange differentiation.

Specifically, the IDW agrees that Category A transactions should be addressed in a revised version of IPSAS 23. This would involve matching the recognition of “general” revenue items to the underlying event giving rise to the revenue.

We also welcome alignment of revenue recognition for transactions in Categories B and C to an IFRS 15-equivalent IPSAS tailored to the public sector environment and the IPSASB’s Conceptual Framework, where appropriate. A public sector performance obligation approach (PSPOA), as discussed in the Consultation Paper, that is based on IFRS 15 is an appropriate approach to revenue recognition for funds or other resources provided to a public sector entity when they are intended to fund the delivery of particular services; i.e., when specific performance obligations can be “matched” to the receipt of such revenue.

Recognition and measurement of services in-kind and other donations

We note the discussion in chapter 5 of the Consultation Paper concerning current recognition option in IPSAS 23 for services in-kind and the resultant lack of comparability.

Whilst we agree that the lack of comparability is a valid argument for the IPSASB to revise this aspect of IPSAS 23, it is not the only reason to remove this option. Non-recognition of services in-kind or other donations that enhance service delivery capacity does not meet the objectives of financial reporting in several additional respects. Specifically, not recognizing a service in-kind, or other donation, will deny users appropriate information for accountability and

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decision making purposes (see chapter 2 of the Conceptual Framework, which also specifically refers to donations and donors). Irrespective of their source, all donations, grants, voluntary provision of services etc. that are accepted as having a value in terms of enhancing service delivery by a public sector entity constitute available resources that contribute to the entity's service delivery capacity. (That is not to say that all services in-kind will meet this criterion – some voluntary service schemes may provide work experience to volunteers but little or no enhancement of service delivery capacity and so would appropriately not be recognized). Non-recognition of any (service delivery enhancing) resources that are at the entity's disposal does not result in fair presentation of the entity's financial position and service delivery achievements.

Categorization of revenue – Differentiation from other accounting phenomena

It is to be expected that not all funding arrangements will be sufficiently specific as to lend themselves to unequivocal classification between the three categories discussed in chapter 3 and capital grants discussed in chapter 5 of the Consultation Paper. Indeed, some may represent other accounting phenomena such as equity injections.

In the absence of firm criteria, preparers' views as to the most appropriate classification may be influenced by practical issues, leading to a firm preference in the interpretation of arrangements for which more than one interpretation might have otherwise been possible.

In our view, Category A transactions will generally form a very significant portion of revenue in the public sector; albeit not for every public sector entity. Therefore IPSASB will need to develop robust criteria for determining the transactions classified as Category A. This will be a highly significant aspect of this project.

As far as the differentiation of Category A transactions from Categories B and C is concerned, revenue streams labelled as taxes, contributions and even charges may be so annotated as to imply a link to benefits or services rather than classification as general taxation. We suspect that many such streams will, in substance, constitute general taxation, notwithstanding their individual annotation. For example, specific payroll deductions may carry different labels for reasons of political acceptability, but nevertheless be calculated on the basis of the individual's income instead of carrying a direct link to service delivery or performance obligations. Other perhaps similar revenue items may indeed be directly linked to performance obligations.

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Difference in timing of projects - potential for mismatch in the recognition of revenue and expense for social benefits

As noted in our general comments, thorough coordination will be required with the social benefits project to prevent an accounting mismatch between the recognition of revenue (in this project) and expenses (in ED 63) for social benefits defined in ED 63. Furthermore, given the diversity of social benefit schemes administered throughout the world, the classification of revenue that represents contributions linked to social benefits defined within the IPSASB's social benefits project (ED 63) may be especially challenging. In particular, for such contributions within Category B, the IPSASB will need to develop criteria to determine to what they shall be matched. In some schemes, contributions may need to be recognised as revenue on the basis that in substance they fund benefits to current scheme beneficiaries; in others they may need to be accrued (as liabilities) for future benefits to current and future scheme beneficiaries. Contributions within Category A could not be "matched" in this way.

For this reason, the IPSASB will need to establish robust criteria, whereby factors such as the basis of calculation, existence or absence of a link to performance obligations, whether this is to current or future beneficiaries or a combination of the two, are assessed in determining the appropriate classification in Category A, B or C. We also refer to our response to PV2 in the appendix to this letter.

In some cases, guidance will also be needed to ensure Category A transactions are appropriately differentiated from capital grants and injections of equity (i.e., ownership contributions).

If you have any questions relating to our comments in this letter, we should be pleased to discuss matters further with you.

Yours truly,

Klaus-Peter Feld
Executive Director

Gillian G. Waldbauer
Head of International Affairs

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Appendix

Specific Matters for Comment and Preliminary Views

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and*
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.*

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

We agree. The development of an IPSAS aligned to IFRS 15 and adapted to public sector environment would be appropriate to deal with those public sector contracts and arrangements that have essentially similar economic substance to profit generating contracts common in the private sector – i.e., where there is a clear case for matching a particular recognition of a revenue source with specific service delivery.

We expect that transactions classified as Category B and Category C will generally be treated similarly under this approach.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's preliminary View 2? If not, please give your reasons.

We agree that a revised version of IPSAS 23 would be appropriate to deal with those revenue transactions that cannot be matched to identifiable and specific performance obligations or stipulations (Category A).

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As explained further in our covering letter, robust guidance will be needed in respect of the classification criteria for Category A transactions. In our view, appropriate differentiation of revenue will be particularly important for both this project and the IPSASB's social benefit project (ED 63). The substance of the transaction (e.g., the basis on which it is derived or calculated), rather than how it may be labelled needs to drive the recognition method. In this context, we note that para. 3.3 (a) refers to general taxation receipts and inter-governmental transfers, such as non-specific and non-earmarked grants (underlined for emphasis). Certain revenue sources may appear to be earmarked (e.g., because they are labelled as "contributions to" or "charges for" a particular service), but in substance they may constitute a general tax on income or a tax on another phenomena and thus fall within Category A. In other cases, they might in-substance be social benefit contributions to be dealt in line with in the forthcoming IPSAS on Social Benefits. Criteria to be considered would include whether, and if so how, the practical administration of the service and the basis of calculation actually links this revenue to the specific service delivery. For example, a calculation basis with no clear link to the service coupled with a mismatch between the amount of revenue and the volume of service could indicate that the service is financed from general taxation revenue and not from the "seemingly appropriately" labelled contributions. Such contributions themselves will then fall within Category A. Categorization of such labelled "contributions" and "charges" may need to be determined on a type-by-type or even a case-by-case basis.

We also consider it of paramount importance that contributions that in-substance are social benefit contributions are dealt with in line with the IPSASB's project on Social Benefits (ED 63) to ensure there is no mismatch with the corresponding expense. Specifically, a contribution might not be treated as Category A transaction in line with this project and thus recognized as revenue according to an updated IPSAS 23, when the corresponding expense is accounted for differently under the forthcoming IPSAS on Social Benefits, finalized possibly at a later point in time.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) *Social contributions; and/or*
- (b) *Taxes with long collection periods.*

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If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

As non-preparer in a jurisdiction that does not apply IPSAS, the IDW is not in a position to respond.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

We agree that Category B transactions may be most appropriately accounted for under a Public Sector Performance Obligation Approach specially developed for the public sector.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29-4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36-4.46);

Step 3 – Determine the consideration (paragraphs 4.51-4.50);

Step 4 – Allocate the consideration (paragraphs 4.51-4.54); and

Step 5 – Recognize revenue (paragraphs 4.55-4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

We generally agree that a five step revenue recognition approach mirroring that in IFRS 15 but adapted to public sector specifics will be appropriate (public sector performance obligation approach (PSPOA)).

Step 1: Identify the binding arrangement. We agree that many arrangements in the public sector will not be governed by a single and enforceable contract, as would likely be the case in the private sector. Consequently sufficient flexibility will be needed in assessing whether or not a binding arrangement exists.

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Guidance – possibly along the lines of para. 4.32 – will be needed to support preparer judgments needed in this regard.

Step 2: Identify the performance obligations. The description of Step 2 in the Consultation Paper seems to mix elements of Step 5 (satisfaction) with Step 2 (identification). In developing this approach in a final standard public sector specific guidance on this will need to be developed.

In developing this revenue recognition step for public sector application, it needs to be clear that the purpose of identification is not first and foremost to determine whether a particular good or service required to be provided is actually distinct from another good or service for the recipient (although information on separate service lines may be needed for other purposes). The key issue is whether the method and particularly the timing of provision (i.e., when control passes) differ. Specifically, provision of a one-off service (e.g., an inoculation to individuals within a given population undertaken in stages) will need to be differentiated from a service provided at regularly recurring intervals (e.g., monthly waste disposal), and constant, continuous service provision (e.g., availability of basic utilities). Thus where a range of services is concerned, it is this aspect rather than distinctness of each service per se that will be key in bundling non-distinct services in order to identify performance obligations (see paras. 4.42 and 4.43).

We further question the general assumption in para. 4.45 that the lack of specification of the nature or quantity of services (only specified time frame) will always mean that there is no performance obligation and thus the revenue will classify as Category A. However, if the entity provides a single type (bundle) of services, lack of specification or even an announced intention to fund the entity's general internal activities would, in substance, support that particular service provision (similar to fixed administration costs that would form part of indirect cost of sales in a private sector profit generating environment) and so there may be a case for categorizing such revenue as Category B or C. In our opinion, where consideration is provided for a specified time period without specifying a particular performance obligation, instead of simply making any such assumption, preparers would need to assess the possible use put to such consideration to support its recognition as revenue only in the period of receipt.

Steps 3 and 4: Determine and allocate the consideration. In the public sector context, it is important to underline that in comparison to the private sector it will be cost coverage over time and availability of funding rather than profitability that is likely to be the key consideration for the entity tasked with provision of a good or service. Often the exact amount of consideration will be fixed, and thus

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the level of service provision must be “cut to fit the cloth”. In other cases the entity may be required to adjust future charges to compensate for a (temporary) surplus or shortfall. Given this, as well as our comments concerning the purpose of an identification of performance obligations, we agree that an IFRS 15-driven emphasis on establishing a stand-alone selling price for a particular good or service is likely to be misplaced in a public sector context.

Step 5: Recognize revenue. The phrase “when (or as) the public sector entity fulfils its performance obligations” (see paras 4.56-58) is intended as the public sector equivalent of the IFRS terms of “satisfaction of a performance obligation” and “transfer of control” (see IFRS 15.31 et. seq.). In our opinion further clarification of the criteria to determine the principle of “fulfilling a performance obligation” will be needed.

Under the proposed PSPOA approach, we fully agree that where fixed consideration is concerned, the provision of goods and services or construction of a capital item should be the key factor in determining the point in time of revenue recognition and not the timing of actual receipt of corresponding consideration. Advance receipt of consideration for goods and services yet to be provided would give rise to a liability for the recipient entity to perform the goods and services delivery obligation. We refer to comments in the covering letter and our response to SMC 5 below in regard to the need for IPSASB to consider requiring presentation of an “other obligation” in the statement of financial position where capital grants have been received but funds remain unspent at the financial reporting date.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;
- (b) Option (c) – Classify time requirements as a condition;
- (c) Option (d) – Classify transfers with time requirements as other obligations; or
- (d) Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

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As noted above, we support the IPSASB's proposed move from its present exchange vs non-exchange approach to the PSPOA.

Subject to this, were the IPSASB to revise IPSAS 23 to encompass transactions within Category B, we would have a preference for option (d), on the basis that this approach is in line with the Conceptual Framework using the potential for presentation of "other obligations" thus enabling revenue to be recognized over time where appropriate, rather than only in the period of receipt.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No

Please explain your reasons.

As noted above, we support the IPSASB's proposed move from its present exchange vs non-exchange approach to the PSPOA for Category B transactions.

Subject to the above, we agree that additional guidance under option (a) together with option (e) would be appropriate, if contrary to our views the IPSASB were to revise IPSAS 23 to encompass transactions within Category B.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB's preliminary view 4? If not please give your reasons.

We agree that it is appropriate for the IPSASB to address the accounting for capital grants in an IPSAS. We refer to our comments in the covering letter in this regard.

Specific Matter for Comment 5 (following paragraph 5.5)

- (a) *Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them.*

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(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

We agree that the Consultation Paper has identified the main issues relevant to accounting for capital grants.

In Germany, the accounting provisions under commercial law would permit a capital grant provided for the purpose of purchasing or constructing an asset, irrespective of whether in part or in full, to be either netted against the initial cost of that asset or initially recognized as a specific item (Sonderposten für Zuwendung) in the statement of financial position, which would then be released (as revenue) over the useful life of the asset. The IDW has consistently expressed its preference for the second option, and notes that the public sector entities applying accruals accounting in Germany generally present such capital grants as a specific item between equity and external debt and release over the useful life of the relevant asset.

As discussed in our covering letter, the IDW has concerns about non-recognition of donations because such treatment does not provide useful information as to the entity's financial position or service delivery. Similarly, offsetting capital grants against the cost of the asset is not our preferred option. We appreciate that recognizing a credit item ("other obligation") in the statement of financial position in line with the IPSASB's Conceptual Framework is the more appropriate option, since such a credit item (quasi-liability) will not meet the definition of either equity or a liability.

Whilst we understand the logic in regard to the current accounting for revenue subject to a repayment clause, we believe that usually no liability should be recognized until such time as specific events or circumstances occur that will trigger an obligation to repay. At the start of an arrangement there would not be any intent to repay revenue (or logically, there is no sound basis for entering into the arrangement). Thus on initial receipt of e.g., cash to fund the building of a swimming pool, a liability to repay would not be recognized.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or*
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognized in the financial statements provided that they*

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can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information: or

(c) *An alternative approach.*

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

As discussed in the covering letter, we do not support retention of the existing option for accounting for services in-kind. The non-recognition of donations, including services in-kind, that enhance service delivery capacity denies users appropriate information for accountability and decision making purposes and therefore does not meet the objectives of financial reporting.

In our view, the IPSASB should follow (b) and (c) and revise the existing requirements, whereby the individual circumstances in conjunction with application of the IPSASB's Conceptual Framework should dictate the accounting treatment.

When services in-kind fulfil the criteria for asset recognition, IPSASB should require they be recognized as an asset (and a corresponding donation recognized in accordance with the terms of the arrangement).

Unless the entity has control of the donated service (i.e., it has recourse if the service is not delivered) the entity would not be able to recognize an asset. Such services in-kind would be most appropriately accounted for by recognizing an expense and corresponding revenue on an ongoing basis as and when they are delivered. In terms of financial reporting of service delivery (comparability and relevant information as to the cost of services) there is, in substance, no difference between donated time or paid for time.

Whether or not the services would have been purchased had they not been donated is not relevant if the donation is accepted and used in service delivery (there may be possibly a measurement issue, if services rendered were inferior in terms of quality compared to services paid for or service delivery slower etc. however this is a measurement issue). Indeed, not accounting for services in-kind would prevent information on service delivery being useful and comparable, especially where an entity were fortunate to have been donated services in-kind, the equivalence of which would have to be paid for by another entity.

Of course, the qualitative characteristics identified in the IPSASB's Conceptual Framework would apply in determining whether donated items or services are material alone or in the aggregate (whether quantitatively or qualitatively).

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Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

In line with our responses to the PVs and SMCs relating to revenue recognition, we accept that the Public Sector Performance Obligation Approach is not appropriate for accounting for expenditure for items that would be a counterpart to Category A, including universally accessible services and collective services.

We agree that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. Indeed, this means that the last boxes in the diagram on page 53 of the Consultation Paper depicting the so-called "extended obligating event approach" are not relevant in determining accounting for universally accessible services and collective services. Consequently, it would be appropriate to delete the last two boxes on the left hand side of the diagram and the last box on the right hand side.

It then becomes clear (whatever this amended approach were called) that the focus needs to be on determining whether or not there is a non-legally binding obligation that would give rise to a liability. In the absence of both a legally binding and non-legally binding obligation the entity will recognize an expense only.

In considering this aspect, we concur with the IPSASB's argument that, whilst there may be an expectation that universally accessible services and collective services will be delivered in future, factors listed in the Conceptual Framework including the ability of the entity to modify or change the service delivery (see para. 5.25) means that these expectations will generally not give rise to obligating events and consequently the liability recognition criteria are not satisfied.

In our view, it is the distinction between the past events leading to these more "imprecise" expectations of availability of universally accessible services and collective services going forward, and a more "tangible" expectation based on the perception of a far firmer personal entitlement (which may be legally binding or otherwise) that provides a direct contrast to certain social benefit schemes. For example in relation to pensions, factors such as the long-term contribution

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by private individuals coupled with their lack of alternative means of support serve as a compelling arguments that the public sector entity does not have a realistic alternative to an outflow of resources. Such factors are missing in relation to universally accessible services and collective services.

Indeed, given potential diversity in service delivery and the various constructs worldwide for service delivery, we believe it may not always be appropriate to consider all so-named universally accessible services and collective services as equivalent in this context. A type-by-type, if not a case-by-case analysis may be needed to establish liability recognition especially where an individual citizen's involuntary contributions may appear to be earmarked for a specific service delivery such that a distinct entitlement is perceived – or even set forth in law. We would therefore encourage the IPSASB to develop robust criteria – particularly in relation to any relationship between individual contribution and future entitlement – in defining universally accessible services and collective services.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Subject to our remarks in response to PV 5, we agree that expenses should be recognized in line with ongoing provision of universally accessible services and collective services.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

We agree with the IPSASB's view, and also refer to our comments in response to earlier (counterpart) SMCs and PVs in this context.

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Preliminary View 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to the uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

We agree with the IPSASB's view, and do not support the other option identified in the Consultation Paper at all, since not reporting on uncollectable amounts will not fulfill the accountability and decision-making usefulness objectives of financial reporting.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

We agree that subsequent measurement of non-contractual receivables should use the fair value approach.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;*
- (b) Amortized Cost Approach;*
- (c) Hybrid Approach; or*
- (d) IPSAS 19 requirements?*

Please explain your reasons.

In our view the requirements of IPSAS 19 (i.e., the best estimate of the expenditure required to settle the present obligation at the reporting date) would likely be appropriate for the subsequent measurement of many non-contractual payables.

IPSASB Consultation Paper
Accounting for Revenue and Non-Exchange Expenses

response to consultation paper

15 January 2018

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

Our ref: Responses/ SC0242 181215

International Public Sector Accounting Standards Board
International Federation of Accountants
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Toronto
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CANADA
Submitted electronically

January 2018

Dear IPSASB secretariat

IPSASB Consultation Paper

Accounting for Revenue and Non-Exchange Expenses

CIPFA is pleased to present its comments on this Consultation Paper, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

Revenue reporting is a key area for the public sector, whether reflecting commercial imperatives, or the distinctive non-exchange aspect of public services transactions. We also agree that there is a pressing need to fill the gap in the current IPSASB literature on accounting for non-exchange expenses.

CIPFA particularly welcomes IPSASB's engagement with IFRS 15, both as a means of maintaining alignment with private sector best practice when appropriate, and as an opportunity to review existing approaches to public sector reporting. And while we remain of the view that the exchange/non-exchange distinction is fundamentally important to the theory underlying public sector financial reporting, we are very interested in the approaches in this Consultation Paper. Especially those which, rather than trying to more precisely delineate the various combinations of exchange and non-exchange, focus on other aspects of the arrangements.

Response to Specific Matters for Comment

Responses to the SMCs are attached as an Annex.

I hope this is a helpful contribution to IPSASB's work in this area. If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org, t: +44(0)20 7543 5794).

Yours sincerely

Don Peebles

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ANNEX

CIPFA RESPONSES TO ITEMS RAISED IN THE REQUEST FOR COMMENTS**Preliminary View 1 (following paragraph 3.8)**

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

CIPFA agrees with IPSASB's Preliminary View 1.

We support straightforward convergence between IFRS and IPSAS for transactions with no specifically non-commercial features, including cases which arise from binding arrangements other than contracts.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

CIPFA agrees with IPSASB's Preliminary View 2.

Category A comprises transactions which are straightforwardly non-exchange, to which the original IPSAS 23 applies without controversy.

For these transactions, an updated IPSAS 23 seems appropriate.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing further guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered together with an indication of the additional guidance you believe is needed.

Public sector reporting in the UK does not directly follow IPSAS, but the accounting treatment of taxes, including national insurance contributions, is similar to that set out in IPSAS 23. The UK has experienced no issues in accounting for social contributions.

We acknowledge that accounting for taxes with long collection periods can be complex and the amounts recognised will often be estimates of the amounts receivable. Accountants need to work with others in determining an appropriate methodology to obtain those estimates.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

CIPFA agrees with IPSASB's Preliminary View 3.

That is, Category B transactions should be accounted for using Approach 2 as described from para 4.25-4.58.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);
- Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);
- Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);
- Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and
- Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

In line with our agreement with Preliminary View 3, CIPFA agrees with these specific aspects of Approach 2.

These broadened requirements seem to be natural counterparts to the IFRS 15 five step approach when considered in the broader context of both contractual obligation and binding arrangements.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;
- (b) Option (c) – Classify time requirements as a condition;
- (c) Option (d) – Classify transfers with time requirements as other obligations; or
- (d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

Per our response to Preliminary View 3, and Specific Matters for Comment 1 and 2, CIPFA supports Approach 2. However, if IPSASB were to implement Approach 1, then our view on the best approach depends on the extent of review of the current requirements in IPSAS 23 generally, including stipulations which are not time requirements.

If IPSAS 23 is otherwise left basically unchanged, then we suggest that the best approach would be (d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

As noted in the Consultation Paper, this maintains consistency with the conceptual framework. However, in contrast with (a) Option (b) it does offer a way to track the effect of time requirements through the main financial statements. Having said this, whether or not this is superior will depend on the specific implementation – while we are hopeful that this could be done in a way that addresses the concerns of some preparers and users of GPFS, we do not have fully developed thoughts on this. And as noted above, CIPFA supports Approach 2.

If IPSAS 23 is subject to more general review, other approaches might be possible. When developing IPSAS 23, IPSASB were concerned that preparers might recognise liabilities in respect of restrictions with no substance or which are not effective. As a consequence of mitigating this risk, the class of liabilities recognised under IPSAS 23 may be narrower than those which would be recognised from a purely conceptual perspective.

The issue of how to account for time requirements – be they related to the receipt of a grant or transfer in advance of the period for which its use is intended, or to a grant or transfer that covers more than one year – is of significant concern across many jurisdictions, including the UK. The issue needs to be resolved, and we suggest that this might need to be considered in the light of a fuller discussion of substance over form. Insofar as IPSAS 23 discusses substance over form, this is only to reduce the situations where a liability is recognised. There is no consideration of substance over form in circumstances where restrictions taken together with other factors may give rise to a non legally binding obligation (or constructive obligation using the terminology of IPSAS 19 and 23). Some stakeholders also challenge paragraph 19 of IPSAS 23, which suggests that a restriction (ie a stipulation without a return obligation) does not result in a binding obligation, unless and until enforcement action has been taken and/or a legal penalty has been incurred.

If a revised IPSAS 23 approach is developed which mitigates the risk of over-recognition while recognising more performance obligations when these are effective, then we would expect this to improve the treatment of some stipulations which combine time requirements with other factors. Whether they would provide a basis for improving the treatment of stipulations which reflect *only* time requirements is more difficult to assess.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Per our response to Preliminary View 3, and Specific Matters for Comment 1 and 2, CIPFA supports Approach 2. One of the advantages of Approach 2 for Category B is that it does not require a sharp distinction to be made between exchange and non-exchange.

However, if IPSASB were to implement Approach 1 for Category B, this issue may need to be addressed. This will depend on the specific changes made to IPSAS 23.

In particular it is not clear to us that cases where there are time requirements are the only ones where making the distinction is difficult and matters to the accounting treatment. Nor is it clear to us that adopting any of Approach 1 Option (b) to Approach 1 Option (e) will obviate the need for this distinction to be addressed.

Unless the IPSASB is able to show that the need for guidance is very substantially diminished by changes made to IPSAS 23, CIPFA considers that the concerns raised by stakeholders would warrant additional guidance.

CIPFA's answer to SMC4 is therefore (a) Yes

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

CIPFA agrees with IPSASB's Preliminary View 4.

Specific Matter for Comment 5 (following paragraph 5.5)

- (a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them.
- (b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

CIPFA considers that the CP sets out the main issues with capital grants

CIPFA has no specific proposals for accounting for capital grants at this stage.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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

CIPFA considers that the IPSASB should pursue approach (b).

This is in keeping with the principle that financial reporting should recognise items which satisfy the requirements for recognition, subject to practical consideration of whether these can be measured in a meaningful and reliable way at proportionate cost.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

CIPFA agrees with IPSASB's Preliminary View 5.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

CIPFA agrees with IPSASB's Preliminary View 6.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

CIPFA agrees with IPSASB's Preliminary View 7.

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

(a) Information on the value of what *should* be receivable

CIPFA agrees that, for accountability purposes it is important to know the value of what should be paid to the entity as a non-contractual receivable.

In cases where the full amount is due immediately, this will equate to the face value (legislated amount). We can however envisage situations where settlement of all or part of the full amount can be legitimately deferred. Under these circumstances there is no impairment because no events have occurred or are anticipated which affect the amount due. However, the present value of the receivable at inception is less than face value. Thus, where the amount deferred and the deferral period are significant, it would be appropriate to use discounted cash flow techniques to determine the present value. Otherwise a false impairment will be shown on subsequent remeasurement at fair value.

(b) Information on the present value of *expected* receipts

CIPFA agrees that, having determined the value of what should be receivable, it is necessary to adjust this to reflect known expectations of the present value of what will be received over time. The two main factors affecting this are where amounts are uncollectible, and where collection is significantly delayed. The proposal in Preliminary View 8 does not reflect delays to collection which are expected at inception, and may therefore result in an overstated value for the receivable.

Comment on Preliminary View 8

Against this background, CIPFA supports IPSASB's Preliminary View 8, which is straightforward and notwithstanding the points raised above will work well in many situations.

In respect of (a) above, we suggest that problems in this area can be addressed through explanation in notes.

In respect of both (a) and (b), any misstatement should be corrected immediately on the first remeasurement; the fair value basis will incorporate assumptions about the timing of collection.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

CIPFA agrees with IPSASB's Preliminary View 9.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

CIPFA agrees with the point articulated at the end of para 7.44 of the Consultation Paper, which is that non-contractual payables with cash flows that are certain in timing or amount can be considered to be analogous to financial instruments. For payables where there is less certainty, it is more difficult to make this analogy.

However, this is used to support an approach that applies the analogy only to non-contractual payables with cash flows that are certain in timing and amount. This is not a conclusion that we would reach without further work.

Now we can see that there is a continuum of uncertainty. At one end there are cases where both timing and amount are certain. At the other, neither timing nor amount is certain. And between these there are cases where timing is certain, or amount is certain, but not both.

Against this background, CIPFA supports Option (c) the Hybrid Approach. However when carrying out further development we suggest that IPSASB should give more consideration to the circumstances under which the amortized cost approach becomes too difficult to apply. This might result in extending the use of the amortised cost approach in line with the final sentence of para 7.44, or provide justification for the hybrid approach as proposed. Stakeholder responses to this SMC may provide relevant input to this process.



Responses to IPSASB Consultation Paper: Accounting for Revenue and Non-exchange Expenses
(August, 2017; Comments due: January 15, 2018)

CONSULTATION PAPER (CP)

ACCOUNTING FOR REVENUE AND NON-EXCHANGE EXPENSES

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

January 15, 2018

Dear Mr. John Stanford,

The Conselho Federal de Contabilidade (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on *Accounting for Revenue and Non-exchange Expenses*. 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.

A handwritten signature in blue ink, appearing to read 'Idésio S. Coelho', is positioned above the printed name.

Regards,

Idésio S. Coelho
Technical Vice-President
Conselho Federal de Contabilidade



Responses to IPSASB Consultation Paper: Accounting for Revenue and Non-exchange Expenses
(August, 2017; Comments due: January 15, 2018)

APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, one federal district and more than 5,500 city governments. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements. The discussion about revenue recognition is important for understanding how the autonomous levels of governments interact in the conduction of public policies across the country.

The state and local governments usually are responsible for implementing public policies, but the resources derived from tax-raising competences are not sufficient to fund the entire activities and/or projects which are expected to produce the necessary services/products for the public policies implementation.

Therefore, the intergovernmental grants are essential to bridge the gap in the state and local governments between tax-raising competences and expenditure responsibilities. In our jurisdiction, the grants are divided into two major categories: compulsory and voluntary. The compulsory grants have not performance obligations or stipulations. In the other hand, the voluntary grants are based on contractual arrangements with stipulations.

In this document, we present the contributions for the consultation paper based on a practical approach applicable to our jurisdiction. In general, we believe that the IPSASB propositions are appropriated; however, the definition of conditions and performance obligations needs to be further more explained in the approaches proposed by IPSASB.

In the next section, we present our comments and answers on the preliminary views and specific matters for comment of the consultation paper on an international level.



Responses to IPSASB Consultation Paper: Accounting for Revenue and Non-exchange Expenses
(August, 2017; Comments due: January 15, 2018)

2. Responses to the Specific Matters for Comment and Preliminary Views

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that: Involve the delivery of promised goods or services to customers as defined in IFRS 15; and Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

IPSASB aims to make IPSAS more direct and objective, replacing IPSAS 9 and 11 by a new one based on IFRS 15 for category C transactions.

GA/CFC agrees with PV1.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Besides taxes, some transfers fall into category A revenue transactions (no performance obligations or stipulations). It is important to adjust IPSAS 23 in order to provide guidance to differentiate transfers that fall into category A from those that fall into category B. In our jurisdiction, mandatory transfers are in the context of category A transactions. On the other hand, voluntary transfers are mostly conditioned to the execution of a specific task, therefore falling into category B.

GA/CFC agrees with PV2.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

Social contributions; and/or

Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

In fact, it is possible that in some jurisdictions certain transfers (or even contributions) may be deferred for a longer period than the financial year, in which case some guidance regarding revenue recognition may become necessary. However, we have not identified any issues within our jurisdiction. One important issue to address while updating IPSAS 23 is to provide more guidance in accounting for expenses paid through the tax system and tax expenditures.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.



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GA/CFC agrees with PV3. However, IPSASB should provide more guidance in cases in which there are not three parties involved, but that can fall within PSPOA, e.g., taxes collected that are tied to a specific use, such as public lighting.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);
- Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);
- Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);
- Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and
- Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

GA/CFC agrees with SMC2, broadening the requirements in the IFRS 15 five-step approach. Just as presented, part of the terminology used in IFRS 15, for example, must be adjusted to the public sector needs. Some arrangements that fall within PSPOA, for example, are not formalized in “contracts”, but in binding arrangements. “Transaction price” is also not a common term in part of public sector transactions. In these two cases, we also agree with the terms “binding arrangement” and “consideration”.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- Option (b) – Require enhanced display/disclosure;
- Option (c) – Classify time requirements as a condition;
- Option (d) – Classify transfers with time requirements as other obligations; or
- Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

The suggested approaches (approaches 1 & 2) for updating IPSAS 23 with respect to category B transactions can be seen in chapter 4 and are as follows:

Approach #1: exchange/non-exchange;

Approach #2: PSPOA approach broadening the original requirements of IFRS 15 to meet public sector needs.

From what we understood from the Consultation Paper, approach #2 seems more appropriate for public sector needs. However, if IPSASB chooses to implement Approach #1 to handle transactions with time requirements, it is reasonable to improve these transactions' disclosure, as well as to recognize them as other obligations (options (b), (c) and (d) combined) until time requirements are met. It is understood that, precisely because of time requirements, in the moment of cash inflows such transactions do not meet the requirements for revenue recognition. In this way, revenue recognition would occur over time (c), concomitantly with a liability reduction (d). Thus, being relevant to the entity and having the potential to influence the users of the accounting information, it is important to increase the disclosure of such transactions (b). It is also understood that option (d), “other obligations”, meets the Conceptual Framework guidelines.

Specific Matter for Comment 4 (following paragraph 4.64)



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Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

As stated by the IPSASB itself, distinction between exchange/non-exchange revenue transactions will always be bound to some degree of subjective perspective, requiring professional judgment. In this sense, it may be risky to provide additional guidance to practitioners, which could make the standard more confusing to be applied. Furthermore, is it relevant to separate revenue transactions as exchange/non-exchange? It may be more interesting to separate them between “usual/non-usual” public sector revenue, or something similar.

In any case, keeping the exchange/non-exchange approach, it may be important to provide additional guidance as regards to time requirements, but only if it is easy to be applied.

GA/CFC: (b) Yes.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB’s Preliminary View 4? If not please give your reasons.

The definition of capital transfers presented in the Consultation Paper is very close to that used in our jurisdiction. Thus, capital transfers would not characterize revenue until they were effectively applied, that is until a condition is met.

GA/CFC agrees with PV4.

Specific Matter for Comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants?

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

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

One issue that deserves to be better discussed, and which is not limited to capital transfers, but to any transactions with performance obligations, concerns the issue of accountability between grantor and receiver. From what was discussed in this CP, the understanding goes to the recognition of the revenue concomitantly with the fulfillment of the performance obligation. However, until recently in our jurisdiction, the grantor would hold an asset until receiving an invoice from the receiver. Thus, the grantor's asset would mirror the receiver's liability, and this asset would only be derecognized if the invoice was considered satisfactory or the resource was returned. With the PSPOA, this understanding would be no longer valid. Thus, additional guidance as regards as the relations between grantor and receiver, particularly on accountability issues, would be necessary.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

(a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or

(b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or

(c) An alternative approach.



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

Services in-kind, or services provided by individuals to the public sector without anything in exchange, are not relevant in our jurisdiction. Therefore, we understand that the recognition of these services should not be mandatory. On the other hand, we are aware that these services may be relevant in other jurisdictions. Therefore, we understand that option (a) would be more appropriate.

GA/CFC: option (a).

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

By analysing the material, non-exchange expenses, except for those covered by the Social Benefits IPSAS draft, include: (a) collective services; (b) universally accessible services; and (c) grants, contributions and other transfers. Our jurisdiction is full of examples, e.g., public education (b), and financial transfers to people below the poverty line (c). In these cases, expenditures by the public sector would not generate benefits to the public sector itself (governments), but only to society as a whole. Thus, we agree with IPSASB's PV5.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

GA/CFC agrees with PV6.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

In our jurisdiction, transfers may or may not be bound to an obligation (mandatory transfers are usually bound to an obligation, whilst discretionary transfers are not). Thus, when this obligation exists, a liability must be recognized and settled concomitantly with the fulfillment of the obligation. Public sector performance obligation seems to be an adequate approach to address issues like this.

GA/CFC agrees with PV7.

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment. Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.



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According to paragraphs 7.3-7.5, non-contractual receivables usually comprise statutory / legal receivables, such as: (a) taxes; (b) government transfers; (c) fines and penalties; (d) fees; and (e) licenses, and arise from legislation or similar instruments. IPSASB understands that the asset should initially be recognized at face value (legislated), and any amount not receivable should be identified as impairment. It seems to us that the practices in progress in our jurisdiction are aligned with this understanding.

GA/CFC agrees with PV8.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

The main issue here concerns the Conceptual Framework, that does not present fair value as a measurement basis. Despite this issue, GA/CFC agrees with IPSASB's PV9.

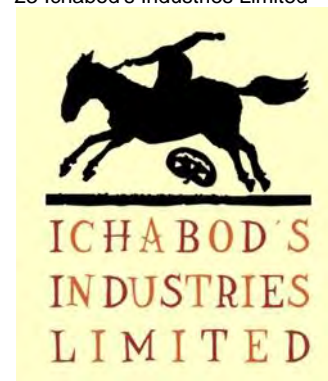
Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfilment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

In our jurisdiction, we usually apply the measurement basis that best reflects the liability during the reporting period. Therefore, the measurement basis that best fits to the non-contractual payable depends on the obligation itself – each tax with obligations with third parties, for example, is analysed in separate and may use a different measurement basis than another. Thus, GA/CFC support any of the four subsequent measurement basis presented, as long as it best reflects the financial position.



Accounting for Revenue and Non-Exchange Expenses
Comments of Ichabod's Industries on the Consultation Paper

Ichabod's Industries is an accountancy consulting firm that provides technical accounting support to a number of local government bodies in the United Kingdom. We have also been commissioned a regular basis to draft guidance for the Chartered Institute of Public Finance and Accountancy on the application of IFRS 9 *Financial Instruments* and the Group Accounts standards by UK local authorities.

UK local authorities have not generally applied IPSASs, but the provisions of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* have been adopted for grant income.

We wish to contribute to discussion on **Specific Matter for Comment 3**.

The Code of Practice on Local Authority Accounting in the UK adopts the provisions in IPSAS 23 that a liability is recognised in relation to a grant (and recognition of revenue is consequently deferred) only where a condition remains outstanding which would result in future economic benefits or service potential being returned to the transferor if it is not met. Particularly with a recent propensity for central government to distribute surplus funds to local government at the end of the financial year, but with a proviso that they are not spent until the next year, we have had a substantial problem of presenting revenue balances accruing at the year-end which were not capable of being applied at that date.

The solution CIPFA arrived at was a recommendation in the guidance notes to the Code that authorities earmark the balances – ie, per Option (b) in paragraph 4.14 of the consultation. However, there has been dissatisfaction that resources with clearly distinguishable applicability can only be distinguished presentationally and not by a distinctive accounting policy.

One possibility that isn't discussed in the consultation is that IPSAS 23 is too narrow in its interpretation that a liability can only be recognised if the transferor has a right of return if conditions are not met. The definition of a liability in the IPSASB Conceptual Framework as "a present obligation of the entity for an outflow of resources that results from a past event" is wider than that applied in IPSAS 23, where the possible outflow of resources is restricted only to the transferor who gave them to the entity.

Our view is that if the liability definition were applied comprehensively to cover any outflow of resources, then it must be implicit in the recognition of any grant payment with stipulations as an asset that a corresponding liability would arise. This is because a receipt of grant would only be recognisable as a resource for an entity if it by implication makes a commitment to meet the stipulations against which the grant has been paid – ie, it commits

to outflows of resources in the form of payments to employees, payments for goods and services, grants to others, etc, in accordance with the transferor's stipulations. Without this implicit commitment, the grant payment has no status as a resource, and is just a balance of cash to be held in perpetuity. A liability in the form of a commitment to incur expenditure in compliance with the stipulations is therefore fundamental to any claim that the grant will be a resource for the authority (with this implicit commitment to future expenditure being the past event).

In short, where a grant is given with stipulations, an entity should not technically be able to recognise an asset without recognising a liability (and thus deferring recognition as income for some or all of the cash receipts until the stipulations are met).

A more comprehensive definition of conditions to reflect the full range of possible cash outflows to which an entity might be committed would resolve the issues about time requirements. It would also remove any unease that might be felt that, whilst stipulations remain unmet, the transferor of resources is substantially directing how the grant receipts can and cannot be spent and the entity cannot be said to have a control over the resource.

There would therefore be a new proposal to be made under Approach 1 – revisit the restrictive definition of conditions in IPSAS 23 and expand it so that it is consistent with the liabilities definition in the Conceptual Framework.

There is also the potential that this sort of thinking could also resolve the issues about capital grants, if the focus on outflows of economic benefits is shifted from the payments for the acquisition or construction of a capital asset (which doesn't need to be resourced, because under proper practices this is achieved through depreciation) to the consumption of the capital asset in the provision of services.

We are therefore suggesting a different focus for Specific Matter for Comment 3 – none of the options for applying Approach 1 would be as effective as bringing the definition of conditions in line with the Conceptual Framework. Option (b) does part of the job, but if further thought is given as to why it might be reasonable it should become clear that it is doing so by partly addressing the a flaw in IPSAS 23 that could be more widely addressed to resolve other issues.

Stephen Sheen (Managing Director)
15 January 2018



REPUBLIC OF KENYA
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

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Date: 15th January 2018

John Stanford
Technical Director
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CANADA

IPSASB CONSULTATION PAPER: ACCOUNTING FOR REVENUE AND NON-EXCHANGE EXPENSES

The Public Sector Accounting Standards Board (PSASB) - Kenya was established by the Public Finance Management Act (PFM) No.18 of 24th July 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28th February, 2014 and has been in operation since.

The Board is mandated to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and Public entities in Kenya and to prescribe internal audit procedures which comply with the PFM Act, 2012.

The Public Sector Accounting Standards Board is pleased to submit its comments on the Consultation Paper (CP) **Accounting for Revenue and Non- Exchange Expenses** to the International Public Sector Accounting Standards Board. PSASB supports the work of IPSASB in providing guidelines for Revenue and Non- Exchange expenses. There is a gap in the current IPSASB literature on accounting for non- exchange expenditure which may lead to inconsistency in accounting for expenditure. PSASB finds these guidelines timely to address the gaps in the current IPSAS and the possible development of a new IPSAS(s).

PSASB responses on Specific Matters for Comment and the Preliminary Views are documented in the attachment for your consideration.

Regards,

BERNARD NDUNGU, MBS
CHAIRMAN, PUBLIC SECTOR ACCOUNTING STANDARDS BOARD



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Certified.

Accounting for Revenue and Non- Exchange Expenses: Responses to the Consultation Paper by Public Sector Accounting Standards Board- Kenya

Preliminary View 1

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- b) Arise from contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

PSASB agrees that it is appropriate to replace IPSAS 9 and IPSAS 11 with an IPSAS primarily based on IFRS 15 to address Category C transactions. This will enhance convergence of IPSAS and IFRS where the nature of revenue transactions is similar.

Preliminary View 2

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

PSASB agrees that Category A revenue transactions that do not contain any performance obligations or stipulations should be addressed in an updated IPSAS 23. While updating IPSAS 23 IPSASB should consider providing more guidelines on exchange and non-exchange transactions to enable preparers of the financial statements to make that distinction and therefore apply the relevant standard.

Specific Matter for Comment 1

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- a) Social contributions; and/ or
- b) Taxes with long collection periods

If you believe that there are other areas where IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues you have encountered, together with an indication of the additional guidance you believe is needed.

The current IPSAS 23 does not have guidelines on social contributions and taxes with long collection periods. PSASB opines that IPSASB should consider providing guidelines with relation to the two in addition to the existing guidance on taxes and transfers.

Accounting for Revenue and Non- Exchange Expenses: Responses to the Consultation Paper by Public Sector Accounting Standards Board- Kenya

Preliminary View 3

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

PSASB agrees that Category B transactions should be accounted for using the PSPOA. The PSPOA is consistent with the IPSASB's Conceptual Framework, it's consistent with IPSAS and will resolve exchange and non- exchange determination which is difficult to determine for category B transactions.

Specific Matters for Comment 2

The IPSASB has proposed to broaden the requirements in the IFRS 15 five- step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1- Identify the binding arrangement (paragraphs 4.29-4.35);
- Step 2- Identify the performance obligation (paragraphs 4.36-4.46);
- Step 3- Determine the consideration (paragraphs 4.47-4.50);
- Step 4- Allocate the consideration (paragraphs 4.51-4.54); and
- Step 5- Recognize revenue (paragraphs 4.55-4.58).

Do you agree with the proposals on how each of the IFRS five steps could be broadened? If not, please explain your reasons.

PSASB agrees with the proposal on how each of the IFRS five steps could be broadened for Category B transactions for the public sector. In broadening the steps, IPSASB should consider giving more guidelines on step 1 and 2 because they largely determine the process and timing of revenue recognition and largely require the use of professional judgement.

Specific Matter for Comment 3

If the PSASB were to implement Approach 1 and update IPSAS 23 for category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

Option (b) 6 Require enhanced display/ disclosure

Option (c) - Classify time requirements as a condition

Option (d) - Classify transfers with time requirements as other obligations; or

Option (e) - Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance

Please explain your reasons.

Accounting for Revenue and Non- Exchange Expenses: Responses to the Consultation Paper by Public Sector Accounting Standards Board- Kenya

PSASB prefers option e- recognize transfers with time requirements in net assets/ equity and recycle through the statement of financial performance. This option is consistent with IPSASB conceptual framework; it's consistent with IPSAS and allows revenue to be recognized over one reporting period thereby enabling constituents to report more accurate information with regards to revenue transactions with time requirements.

Specific Matters for Comment 4

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) - Provide additional guidance on making the exchange/ non- exchange distinction?

a) Yes

b) No

Please explain your reasons

Yes. PSASB considers that Option e preferred in SMC 3 should be used in combination with Option (a) under Approach 1. Although the combination of these options would not fully resolve the exchange/non- exchange transaction distinction, it would enhance the existing guidance to preparers on the distinction which currently poses a challenge under the existing IPSAS 23.

Preliminary View 4

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

PSASB agrees that accounting for capital grants should be explicitly addressed within IPSAS.

Specific Matters for Comment 5

a) Has IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants please identify them.

b) Do you have any proposals for accounting for capital grants that the IPSASB should consider? Please explain your issues and proposals.

a) IPSASB has identified the main issues with capital grants especially in relation to capital grants with conditions. However, PSASB opines that there are challenges with capital grants that have restrictions which may not have been identified. For example, in Kenya, the National Government transfers capital grants to Universities for construction of facilities. These grants are not required to be returned to the transferor and therefore are recognized as revenue when they become receivable or when received whichever comes earlier. In some cases, the National Government transfers the full amount relating to a capital project in the year in which the project has been budgeted for. The University then recognizes the full

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amount as revenue since the stipulation on the resource is a restriction and no liability is recognized for the same. This in effect causes the University/ Entity to which transfers are made to record a significant amount of surplus in the year the grant is recognized. The alternative would be to recognize a liability and then recognize income as the capital project is being constructed over time.

b) PSASB has the following proposals for accounting for capital grants that the IPSASB should consider:

IPSASB should consider extending the stipulation on conditions to not only refund of funds to the transferor but other sanctions such as legislation, cabinet or ministerial decisions and reduction of future funding of the program. This will enable more resources to be recognized as liabilities where there is an obligation and will resolve some of the issues with restricted capital grants as noted above.

For capital grants with conditions, IPSASB should consider a similar application with that under IAS 20 Government Grants and Disclosure of Government Assistance. This will enable preparers to recognize revenue on a systematic basis over the life of the asset.

Specific Matter for Comment 6

Do you consider that IPSASB should:

- a) Retain the existing requirements for services in kind, which permit, but do not require recognition of services in kind; or
- b) Modify requirements to require services in kind that meet the definition of an asset, to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- c) An alternative approach

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

IPSASB should modify requirements to require services in kind that meet the definition of an asset, to be recognized in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information. This will enhance comparability of financial statements and where these services in kind are significant, the information will be beneficial to users of the financial statements in determining the value of services in kind provided to an entity.

Accounting for Revenue and Non- Exchange Expenses: Responses to the Consultation Paper by Public Sector Accounting Standards Board- Kenya

Preliminary View 5

The IPSASB is of the view that non- exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non- exchange transactions should therefore be accounted for under the Extended Obligating Event Approach

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

The PSASB agrees with this preliminary view.

Preliminary View 6

The IPSASB is of the view that, because there is no obligating event related to non- exchange transactions for universally accessible services and collective services, resources applied for these types of non- exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

The PSASB agrees with this preliminary view.

Preliminary View 7

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations, they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

PSASB agrees that where grants, contributions and other transfers contain either performance obligations or stipulations, they should be accounted for using the PSPOA. This will enhance uniformity while recognizing revenue and expenses for the resources recipient and the resources provider respectively.

Preliminary View 8

The Board considers that at initial recognition, non- contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be collectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

PSASB agrees that at initial recognition, non contractual receivables should be measured at face value. By using this measurement, it will be easier to assess the receivables for impairment on a regular basis as opposed to using the discounted cash flows method. In addition, the face value or legislated amount will enhance transparency and accountability by entities in collecting all their receivables including those that may be considered impaired from time to time.

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Preliminary View 9

The IPSASB considers that subsequent of non- contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

PSASB disagrees with this Preliminary View and opines that use of the cost approach would be more ideal for non- contractual receivables. While using fair value, it would be difficult to determine the market rate for non- contractual receivables this would not therefore resolve the existing measurement gaps for non- contractual receivables. On the other hand however, using the cost approach resolves the complexities involved with determining a market rate and is consistent with the initial measurement at face value covered under Preliminary View 8.

Specific Matter for Comment 7

For subsequent measurement of non- contractual payables do you support:

- a) Cost of Fulfillment Approach
- b) Amortized Cost Approach
- c) Hybrid Approach
- d) IPSAS 19 requirements

Please explain your reasons.

For subsequent measurement of non- contractual payables, PSASB supports the Cost of Fulfillment Approach. This approach is easy to apply and produces understandable information to users of financial statements.

16 January 2018

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John Stanford
Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto
Ontario
Canada

Dear John

IPSASB Consultation Paper *Accounting for Revenue and Non-Exchange Expenses*

We appreciate the opportunity to comment on the Consultation Paper *Accounting for Revenue and Non-Exchange Expenses* (the CP).

The accounting for revenue and non-exchange expenses is a challenging and important area in public sector accounting. We are pleased the IPSASB is progressing the development of improved revenue standards and a standard on public sector expenses.

We are concerned that moving away from the “condition” accounting approach of IPSAS 23 to a “performance obligation” approach as proposed under the PSPOA could result in revenue being recognised earlier. This is despite an expectation from the funder that the entity perform an enforceable task or deliverable, or spend the funds in the manner specified by the funder. We consider the performance obligation notion of the PSPOA needs to be broadened further than proposed by the IPSASB to capture those transactions that do not transfer a good or service but there is an enforceable obligation on the grant recipient to perform a specific task or deliverable, or spend the funds in the manner specified by the funder. This will also ensure that funding arrangements that are structured differently but in substance are similar, are accounted for in a consistent manner.

If the PSPOA is not broadened further, we expect it would give rise to issues similar to time-requirement issues experienced under IPSAS 23. If the IPSASB decides not to broaden the PSPOA, then it should consider broadening the time-requirement options to also cover arrangements with deliverables imposed by the funder that are enforceable but don’t involve the transfer of a good or service.

A number of the issues identified by the CP for grant recipients are also relevant to grant providers. We recommend the IPSASB also consider the accounting for capital grants and time-requirements from the grant provider’s perspective.

Our responses to the IPSASB’s Preliminary Views and Specific Matters for Comment are attached.

If you would like to discuss any of our comments, please phone me on 64 21 222 6107 or email me at robert.cox@auditnz.govt.nz, or contact Brett Story on 64 21 222 6247 or email at brett.story@auditnz.govt.nz.

Yours sincerely

A handwritten signature in blue ink that reads "Robert Cox". The signature is stylized, with the first name "Robert" and the last name "Cox" clearly legible.

Robert Cox
Head of Accounting

Our comments on the Consultation Paper

Preliminary View 1

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and***
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.***

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

We generally agree. However, our preference is that transactions within the scope of the PSPOA are also addressed in an IFRS 15-equivalent standard that is amended for the PSPOA, rather than as a separate standard or part of an amended IPSAS 23.

Preliminary View 2

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Yes, we agree.

Specific Matter for Comment 1

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or***
- (b) Taxes with long collection periods.***

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

An issue encountered with IPSAS 23 is determining when a receivable asset arises under a grant arrangement.

IPSAS 23 provides limited guidance on asset recognition and measurement for grant arrangements. Determining the asset recognition and measurement accounting for grant arrangements can be challenging when grant funds are paid over time and future payments are conditional on the grantee performing an action or reaching a specified milestone. Factors relevant to the consideration of the recognition of future funding instalments under a funding arrangement may include:

- Funder's review of the recipient's performance before paying future grant instalments.
- Termination clauses.

- Future funding under an arrangement being subject to annual parliamentary budget or appropriation requirements.

It would be helpful if further guidance was provided on when the funding under a grant arrangement meets the asset recognition criteria and the measurement of that asset.

Further application issues in the context of related SMC and PVs questions are addressed in the relevant sections of this comment letter.

Preliminary View 3

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

We generally agree with the IPSASB developing a PSPOA approach. However, we consider a broader notion of "performance obligation" needs to be developed. This is discussed further in our comments in SMC 2 below.

For those transactions with "time-based" stipulations that would not qualify for the PSPOA, the IPSASB needs to consider the accounting options included in SMC 3 below. Under the CP, the IPSASB proposes only to consider time-based stipulations under Approach 1 of enhancing IPSAS 23. The IPSASB should also consider time-based stipulations under Approach 2 of the PSPOA as the issue is relevant under both approaches.

Specific Matter for Comment 2

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29 – 4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36 – 4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);

Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and

Step 5 – Recognise revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

We have a significant concern with step 2 – identify the performance obligation.

Paragraph 4.46 of the CP explains that a performance obligation only includes activities that an entity must undertake to fulfil a contract and where those activities transfer a good or service to a customer. The IPSASB considers this principle would need to be preserved in developing a broadened PSPOA.

We are concerned that the IPSASB intends to develop a broadened PSPOA with a performance obligation notion that is too narrow and would apply only where a funding contract results in a good or service being transferred to a funder or beneficiary. This may result in some transactions that include conditions (and therefore revenue deferrals may be recognised under IPSAS 23) no longer being eligible for revenue deferral under a broadened PSPOA.

We consider a contract that includes specific deliverables or that requires the funds to be spent in the manner specified by funder, and is enforceable by the funder that does not involve the transfer of a distinct good or service to the funder/beneficiary should be eligible for accounting under the PSPOA. This is because in substance it is sufficiently similar to an enforceable obligation imposed by a funder to transfer a good or service.

For example, a District Health Board (DHB) enters into a 2 year multi-year grant agreement totalling \$800k to fund the salary costs for a project manager and support staff to review the DHBs systems and processes to improve cancer treatment times and then implement system improvements. The DHB is required to report quarterly to the funder on progress on the project deliverables and salary costs incurred. Funds are provided quarterly in advance subsequent to the receipt of the prior quarter's quarterly report and unspent funds are refundable to the funder at the end of the arrangement. The funder has the ability to cancel the contract or cease future payments in the event of non-performance under the contract.

This example raises the issue of when an asset arises under the contract and the amount of that asset, and when revenue is recognised following recognition of the asset.

In this example, the DHB is required to perform a specific task, which is monitored by the funder and is enforceable. Satisfying the performance expected in the funding arrangement also requires an economic outflow in the form of future salary costs.

This example also illustrates that while there may not be an immediate directly observable output to a beneficiary, the expenditure is contributing to an outcome of improving treatment times. This would be of general benefit to users of the public health system.

We therefore consider this type of arrangement should be accounted for following the PSPOA framework because in substance it is sufficiently similar to an obligation imposed by the funder to transfer a good or service.

Another example is where a DHB receives funding from central government to administer vaccinations. In this case, the funding arrangement is structured to fund the actual salary costs of additional medical staff with specific expertise in vaccinating populations and the costs of vaccine medicines and the funds must only be spent for this purpose and there is monitoring over this by the funder (an "input-based" funding arrangement). Unspent funds must be returned to the funder. An alternative funding arrangement structure that achieves the same purpose would be where the funder provides the DHB with funding only for each vaccination administered (an "output-based" funding arrangement).

For this example, in substance the funding whether on an "input" or "output" basis achieves the same outcome of providing vaccinations to the public. We therefore consider the accounting should be the same for both types of funding arrangements.

We urge the IPSASB to develop a broadened PSPOA that is broad enough to capture those contracts with clear deliverables imposed by the funder or that requires the funds to be spent in the manner specified by funder that are enforceable but don't involve the transfer of a distinct good or service to a funder/beneficiary.

If the PSPOA is not broadened further, we expect issues will emerge similar to time-requirement issues experienced under IPSAS 23. If the IPSASB does not broaden the PSPOA as recommended, the time-requirement options in SMC 3 below should be broadened to apply to contracts with deliverables imposed by the funder that are enforceable but don't involve the transfer of a distinct good or service to a funder/beneficiary.

Specific Matter for Comment 3

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations)?:

(a) Option (b) – Require enhanced display/disclosure:

(b) Option (c) – Classify time requirements as a condition;

(c) Option (d) – Classify transfers with time requirements as other obligations; or

(d) Option (e) – Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

The options to address concerns around time-requirements should also be considered by the IPSASB in implementing Approach 2, the PSPOA.

The accounting for funding that includes time-requirements is an important issue for affected entities due to the significant distortions that can arise in the reported financial performance. Distortions can arise when an entity is required to recognise the following year's operating funding grant when it is unconditionally agreed prior to that period, or where an entity receives a multi-year grant and is required to record revenue upfront for the full amount of the grant in advance of the costs incurred.

An example of such an issue in New Zealand is the Waikato River Clean-Up Trust where the Trust will receive \$7 million each year for 22 years. The Trust intends to disburse the funding annually on river clean-up related grants. Because the funding arrangement is unconditional, the funding to be received over the 22-year period is recognised as a receivable and revenue upfront when the agreement was executed. The funds received will then be expensed over the 22-year period as grant arrangements are entered into by the Trust. In this example, the Trust also reports a significant amount of interest revenue to unwind the discounted value of the receivable over the 22-year period, which further distorts the Trust's financial performance.

If the IPSASB decides on a recognition solution for time-requirements, we prefer option (e) of transferring the credit entry to net assets and recycling to the surplus/deficit in the period the funding relates to. Sufficient guidance would need to be provided under this option on the timing of the recycling of the credit entry to the statement of financial performance to mitigate manipulation of performance. We note there is precedent for this accounting approach in IPSAS 29 under cash flow hedge accounting where derivative gains and losses are deferred in equity and recycled to the surplus/deficit to match the revenue or expense arising from the risk managed.

Specific Matter for Comment 4

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Yes. If the IPSASB decides to progress Approach 1, then we consider further guidance is necessary in distinguishing between exchange and non-exchange transactions. The most difficult and contentious aspect of the recent transition to IPSAS-based accounting standards in New Zealand was assessing whether a revenue transaction was exchange or non-exchange due to the lack of guidance in this area. Further guidance on the exchange/non-exchange distinction would therefore be welcomed under Approach 1.

Preliminary View 4

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

Yes, we agree that the accounting for capital grants should be explicitly addressed within IPSAS.

We have encountered significant issues and challenges in accounting for capital grants received by entities in applying IPSAS 23.

The IPSASB should also address capital grants from the funder's perspective.

Specific Matter for Comment 5

(a) Has the IPSASB identified the main issues with capital grants?

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

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

(a) Yes, the main issues we are aware of have been identified.

(b)

Our preference is for the IPSASB to develop proposed requirements and guidance for capital grant transactions based on application of the PSPOA. The proposals would need to address difficult capital grant issues, such as:

- Where an entity has a use condition on an asset, and, if it breaches this condition, the grantor can request the return of the physical asset or refund all or part of the grant monies provided. For example, a capital grant provided that must be used to construct social housing

and the asset must be used for social housing purposes for 20 years, and, if breached, all or part of the grant monies are repayable to the transferor.

- A use condition is attached to an asset with an indefinite life and the asset must be returned to the transferor if that condition is breached. For example, land held that must be used indefinitely for educational use.

We encourage the IPSASB to consider the capital grant requirements and guidance developed by the Australian Accounting Standards Board in AASB 1058 *Income of Not-for-Profit Entities*, in particular paragraphs 15 to 17, and illustrative examples 9 and 10.

Requirements and guidance for entities that **provide** capital grants should also be considered by the IPSASB as it develops the non-exchange expense accounting proposals as providers of capital grants are faced with similar accounting issues as grant recipients.

Specific Matter for Comment 6

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services-in kind, which permit, but do not require recognition of services in-kind; or***
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or***
- (c) An alternative approach.***

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

We support retaining the existing requirements that permit entities to make an accounting policy choice for the recognition of services-in-kind.

In the New Zealand public sector, most entities do not recognise services-in kind received. We are not aware of any concerns by public sector entities about the existing service-in kind accounting requirements.

We expect, in most cases, the cost of obtaining information on the value of services-in kind received would outweigh the benefits received from reporting this information. Mandating the recognition of services-in kind would require entities to establish systems and processes to gather reliable information, such as establishing time sheeting systems, systems to estimate the value of the services received, and internal controls over these to ensure the information is reliable and auditable.

Preparers are also unlikely to see any significant benefits associated with the time and cost of establishing and maintaining service-in kind systems. For example, mandating the recognition of services-in kind may require schools to estimate a monetary value for members of the community who “donate” their time to various school activities, such as coaching, fundraising, working-bee activities, and other activities of the school.

Additionally, we anticipate there could be difficulty in determining whether an entity has sufficient control for accounting purposes over an individual in assessing whether an asset arises from the services-in kind received.

Preliminary View 5

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

The CP acknowledges that universally accessible services and collective services contain no performance obligations or stipulations that the resource recipient is required to fulfil as a result of receiving these services.

Given there are no performance obligations on service recipients, there appears to be little merit in considering application of an extended obligating event approach.

We consider the important issue for the IPSASB to address is the liability recognition point for universally accessible and collective services as this drives the expense recognition.

We also consider that funding between different levels of government to fund government's delivery of collective services to the public should be accounted for by the funder as a grant and other transfer. For example, for the central government entities that provide funding to public hospitals and public education institutions to deliver collective services, the funding arrangements between the entities should be accounted for as grant and other transfer in the financial statements of the funder.

Preliminary View 6

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

While we are comfortable with the accounting outcome of universally accessible services and collective services liabilities and expenses being recognised when incurred, the IPSASB needs to provide further reasons and analysis to support this conclusion.

The CP justifies there is no obligating event in relation to universally accessible services and collective services because governments can vary the level of such services so that the availability of those services may be limited. We don't think this fact is persuasive in its own right to support the conclusion reached. We note that adjusting the levels of services provided by a government is unlikely to occur swiftly and may require legislative change for rights to services established through legislation.

The IPSASB should consider the work in the Social Benefits project to strengthen the support for the PV.

Preliminary View 7

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

We generally agree with this PV. However, we consider:

- The performance obligation definition needs to be broader than proposed by the IPSASB, for the same reasons as explained in SMC 2 above.
- The IPSASB also considers time-requirements and capital grant accounting for grant providers, as noted in PV 4 and SMC 3 above.

We also consider that sufficient guidance needs to be provided on the liability recognition point for all grants, contributions, and other transfers (regardless of the approach applied to expense recognition). An issue often encountered in practice with these arrangements is when a present obligation to provide funding arises. Particularly, when grant funds are paid over time and future payments are conditional on the grantee performing an action or reaching a specified milestone.

Factors relevant to the consideration of recognition of future funding instalments under a funding arrangement may include:

- Funder's review of the recipient's performance before paying future grant instalments.
- Termination clauses.
- Future funding under an arrangement being subject to annual parliamentary budget or appropriation requirements.

Preliminary view 8

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Yes, we agree.

The initial measurement of statutory receivables, such as taxes and fines, at fair value was subject to significant debate between some preparers and auditors on transition to an IPSAS 23 based standard in New Zealand. In particular, there was tension between the requirements of IPSAS 23 and concerns over the loss of important information on statutory imposed revenue amounts by applying a fair value measurement approach at initial recognition.

Initially recognising non-contractual receivables at face value with a separate impairment amount would help provide greater transparency and accountability for statutory-based revenues.

An important presentational issue for the IPSASB to consider in developing an exposure draft is whether the amount identified as impairment is presented separately as an expense within expenses or is presented as a separate line item (negative revenue) within the revenue section of the statement of financial performance.

Preliminary View 9

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

At this stage, we have no specific preference on the subsequent measurement approach to non-contractual receivables.

Specific Matter for Comment 7

For subsequent measurement of non-contractual payables do you support:

(a) Cost of Fulfilment Approach:

(b) Amortised Cost Approach;

(c) Hybrid Approach; or

(d) IPSAS 19 requirements?

Please explain your reasons.

At this stage, we have no specific preference on the subsequent measurement approach to non-contractual payables.

However, we consider a consistent approach to the subsequent measurement of non-contractual receivables and payables may be relevant in some circumstances. For example, consistency of accounting treatment may be of relevance for a government entity that reports both tax related receivables and payables in the statement of financial position as it could owe and be owed amounts related to the same tax. The position with individual taxpayers could also change between an asset and liability year-on-year.

International Public Sector Accounting Standards Board
Mr Ian Carruthers, IPSASB Chair
and Mr John Stanford, IPSASB Deputy Director
277 Wellington Street West
Toronto, Ontario M5V 3H2
Canada

E-mail: Ian.Carruthers@cipfa.org, JohnStanford@ipsasb.org

15 January 2018

Dear Mr Carruthers, dear Mr Stanford,

Consultation Paper on Accounting for Revenue and Non-Exchange Expenses

We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on Consultation Paper on Accounting for Revenue and Non-Exchange Expenses (the Consultation Paper) on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Exposure Draft. “PricewaterhouseCoopers” or ‘PwC’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency and transparency of public sector financial reporting worldwide.

The Consultation Paper on Accounting for Revenue and Non-Exchange Expenses is particularly welcome for the following reasons: it will fill one of the most important remaining gaps in the suite of IPSAS standards by providing accounting guidance on non-exchange expenses, which represent major transaction flows in the public sector, it will address practical issues in accounting for revenue from exchange and non-exchange transactions and it will enhance convergence with IFRS for those transactions that are similar in substance to those entered into by private companies.

We agree with IPSASB’s proposal to categorise revenue into three categories - (A) transactions with no performance obligations or stipulations (B) transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15 and (C) transactions that meet the definitions and scope of IFRS 15 - and for category B transactions to recognise revenue following a five-step approach based on the fulfilment of performance obligations and that considers the specific characteristics of the public sector. In line with our

more detailed comments and given the proposed differences in accounting models, we wish to reinforce the importance of delineating those categories in mutually exclusive while complete scopes.

We also agree with the proposal to recognise expenses from grants, contributions and other transfers under the public sector performance obligation approach which mirrors the accounting treatment for revenue of a similar nature.

We recommend that the IPSASB clearly articulates to what extent the proposals reconcile with the provisions of the Conceptual Framework, including the definition of elements and the accountability and decision-making objectives of financial statements.

The subject-matter is complex. We therefore strongly recommend to provide sufficient practical guidance and illustrative examples in order to enhance consistency in application of the proposed approaches.

If you would like to discuss any of these points in more detail, please contact Henry Daubeney ((+44) 20 7804 2160), Patrice Schumesch ((+32) 2 710 40 28) or Sebastian Heintges ((+49) 69 9585 3220).

Yours sincerely,

A handwritten signature in dark ink, appearing to read "PricewaterhouseCoopers", written in a cursive style.

PricewaterhouseCoopers

Responses to the questions in IPSASB's Consultation Paper on Accounting for Revenue and Non-Exchange Expenses

1. Preliminary view 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and**
- b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.**

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

We agree to replace IPSAS 9 'Revenue from Exchange Transactions' and IPSAS 11 'Construction contracts' with a new standard primarily based on the new IFRS standard 'IFRS 15 Revenue from Contracts with Customers'. For transactions entered into by public sector entities that are similar in substance to transactions entered into by private companies and that fall under the scope of IFRS 15 (i.e. Category C transactions in the Consultation Paper), it is appropriate to adopt accounting rules that are aligned on IFRS 15. This is fully in line with IPSASB's strategy to adopt accounting standards that converge with IFRS when no specific public sector characteristic needs to be taken into account.

2. Preliminary view 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

We agree with IPSASB's proposal to address the accounting treatment of revenue transactions that do not contain performance obligations or stipulations (i.e. Category A transactions in the Consultation Paper, for example taxes and transfers) in an updated IPSAS 23 'Revenue from Non-Exchange Transactions (Taxes and Transfers)'.

Clear and detailed guidance should be provided on whether a transaction falls under either Category A or Category B (as referred to in the CP).

The substance of the transaction rather than its form needs to drive the accounting treatment. In this context, we note that para. 3.3 (a) refers to general taxation receipts and inter-governmental transfers, such as non-specific and non-earmarked grants. Certain revenue sources may however appear to be earmarked (e.g. because they are labelled as "contributions to" or "charges for" a

particular service), but in substance they may constitute a general tax on income or tax on another phenomena. In some circumstances, they might in-substance create a performance obligation or stipulations on the entity and therefore fall into Category B or even C. In other circumstances, they might in substance even be social benefit contributions and therefore must be considered appropriately in the forthcoming IPSAS standard on social benefits. Robust criteria need to be developed to assist in the classification by preparers.

3. Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or**
- (b) Taxes with long collection periods.**

If you believe that there are further areas where the IPSASB should provide additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

We concur with the view that additional guidance should be provided in an updated version of IPSAS 23 on social contributions and taxes with long collection periods.

In terms of additional areas where we believe the IPSASB should provide additional guidance, we identified the following:

- Clarify the importance (or lack thereof) of past practices when assessing conditions on transferred assets and restrictions that are set, for example, between a government and a controlled entity. In the separate financial statements of the controlled entity, we have experienced debates in determining the substance of such stipulations given the power of the government over the entity and the absence of precedents where transfer assets were returned to the government (as original transferor).
- Determine whether stipulations under the new guidance would need to represent incremental obligations for the recipient entity as opposed to reinforcing obligations otherwise already present in the recipient entity's constituting mandate.
- Provide guidance on how to account for revenue that has the legal form of a tax but is really a payment for goods or services (e.g. water rates).
- Clarify whether granting of licences is licence revenue, a tax or revenue for the delivery of goods and services and under what circumstances.
- Explain how government appropriations should be accounted for. See also the example developed under SMC 3.
- Clarify how property rates should be accounted for (at one point in time or over time) and under what circumstances.

4. Preliminary view 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

We agree with IPSASB's proposal to account for transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15 (i.e. Category B in the Consultation Paper) using the Public Sector Performance Obligation Approach (PSPOA). This approach would build on the five-step performance obligation approach of IFRS 15 but would be adapted for the public sector environment. Given the early stages of this project, we would encourage the IPSASB to further define the types of transactions within Category B and provide examples of application of the PSPOA to these transactions. This will enable IPSASB stakeholders to better assess the practical application of the PSPOA to typical transactions falling within Category B.

We recommend that the IPSASB clearly articulates to what extent the proposals reconcile with the provisions of the Conceptual Framework, including the definition of elements and the accountability and decision-making objectives of financial statements. This is particularly important given the tension between the balance sheet (specifically the definition of a liability in the Conceptual Framework) and the statement of financial performance (especially to provide performance information which is meaningful for the decision making).

5. Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements to IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 - Identify the binding arrangement (paragraphs 4.29-4.35);

Step 2 - Identify the performance obligation (paragraphs 4.36-4.46);

Step 3 - Determine the consideration (paragraphs 4.47-4.50);

Step 4 - Allocate the consideration (paragraphs 4.51-4.54); and

Step 5 - Recognise revenue (paragraphs 4.55-4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

We agree that the way to interpret the five steps included in IFRS 15 should be broadened to appropriately take into account the specific characteristics of the public sector. In particular:

- For step 1, we support the view that determination of whether an obligation exists should not be limited to the analysis of contractual arrangements but should also consider binding arrangements (i.e. enforceable agreements).

- For step 2: we agree that revenue should be recognised in accordance with the PSPOA when (or as) the public sector entity fulfils its performance obligations rather than based on the transfer of promised goods and/or services. This would e.g. cover arrangements where third parties receive the benefits resulting from those performance obligations, rather than the resource provider directly.
- For step 5: we agree that the principles set out in step 5 of IFRS 15 be adapted to public sector transactions. In our view, the application of this particular step to Category B transactions remains unclear, especially when there are no performance obligations and only stipulations. It is hard to understand what is meant by “when (or as) the public sector entity fulfils its performance obligations” (see paras 4.56-58). Therefore, the IPSASB must develop robust criteria to determine the principle of “fulfilling a performance obligation”.

Given the complexity of the topic and the wide range of transactions that fall into Category B in the CP, we strongly recommend that the IPSASB develops detailed guidance and illustrative examples about the principles to be applied for each step in order to enhance consistency in the accounting treatment of similar transactions under similar circumstances.

6. Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- a) Option (b) - Require enhanced display/disclosure;**
- b) Option (c) - Classify time requirements as a condition;**
- c) Option (d) - Classify transfers with time requirements as other obligations; or**
- d) Option (e) - Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.**

Please explain your reasons.

We do not support Approach 1 but Approach 2, i.e. recognising revenue following the PSPOA for transactions falling under Category B of the CP. We refer to our response to Preliminary View 3.

We agree that the current IPSAS 23 treatment of transfers with time requirements (and no other stipulations), i.e. revenue recognition by the resource recipient when the transfers are receivable, might not provide useful information about the period over which the resources will be used.

Selecting one of the proposed options, for example option (d) (using the concept of ‘other obligations’) might be a response to the above concern. Instead of directly choosing option (b), (c), (d) or (e) if Approach 1 is selected, we however invite the IPSASB to further investigate a spectrum of cases that are encountered in practice starting with transfers with time requirements and clearly no stipulations, finishing with transfers with time requirements and clear stipulations and including in between transfers with time requirements and where it is unclear whether a stipulation exists.

We would encourage investigating whether a wide interpretation of the concept of stipulation might lead to more transactions being classified in category B and therefore adequately respond to the issue raised concerning the current IPSAS 23 treatment of transfers with time requirements.

Again here we encourage to provide illustrative examples for the different types of situations that may exist.

In particular, we would welcome that the IPSASB provides guidance on the accounting treatment of a transfer to one public sector entity that is voted before the year end (in year X-1) but is intended to fund the budget of the following year (in year X). An intuitive accounting treatment would consider linking revenue for the recipient with the costs the transfer intends to compensate (in year X). An interesting analysis would be to analyse what might constitute a stipulation (also interpreting it in the broad sense) therefore leading to a classification in Category B, which would allow revenue recognition in year X.

In the same way, detailed practical guidance and illustrated examples would be welcome for multiyear grants and transfers, especially to clarify those situations where it can be interpreted that a stipulation exists and that revenue should be recognised over several periods.

7. Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) - Provided additional guidance on making the exchange/non-exchange distinction?

a) Yes.

b) No.

Please explain your reasons.

We refer to our response to SMC 3 above.

Should Approach 1 be retained, we believe that additional guidance should be given on making the distinction between exchange and non-exchange transactions. In practice the terms ‘directly’ and ‘approximately equal value’, which are included in the definitions of exchange and non-exchange transactions, may be difficult to interpret in certain situations. Additional guidance on this issue is needed.

8. Preliminary view 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

We agree that the IPSASB should explicitly address the accounting for capital grants within IPSAS to ensure consistency in application.

9. Specific Matter for Comment 5 (following paragraph 5.5)**a) Has the IPSASB identified the main issues with capital grants?**

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

b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

There is currently no specific guidance about the pattern of revenue recognition when dealing with the accounting of capital grants. This situation creates diversity in application depending on whether the grant agreement includes restrictions and/or conditions as defined by the current IPSAS 23. We therefore agree that the pattern of revenue recognition is the main issue to be addressed. Some of the matters identified under SMC 1 illustrate those challenges.

Under the IFRS equivalent IAS 20 'Government Grants and Disclosure of Government Assistance' revenue is recognised in the statement of financial performance on a systematic basis over the useful life of the asset financed by the grant or as an offset to the depreciation expense. Mirroring this accounting treatment would conflict with the IPSASB Conceptual Framework when no conditions are linked to the grant as revenue would be recognised over time while no obligation exists. It would however provide useful information about the period over which the resources will be used. We recommend that the IPSASB investigates this issue, following a similar reasoning to the one suggested in our response to SMC 3.

10. Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or**
- b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or**
- c) An alternative approach.**

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

Recognition of services in-kind that enhance service delivery capacity is useful for accountability and decision-making purposes. In our view, the IPSASB should follow approach b) and revise the existing requirements, whereby the individual circumstances in conjunction with application of the IPSASB's Conceptual Framework should dictate the accounting treatment.

When services in-kind fulfil the criteria for asset recognition, IPSASB should require they be recognised as an asset (and a corresponding donation recognised in accordance with the terms of the arrangement). Unless the entity has control of the donated service (i.e. it has recourse if the service is not delivered) it would not be able to recognise an asset. Such services in-kind would be most appropriately accounted for by recognising an expense and a corresponding revenue as and when they are delivered. In terms of financial reporting of service delivery (comparability and relevant information as to the value of services) there is in substance no difference between donated time and paid time.

We however acknowledge that measurement of some types of services in-kind may be difficult in practice. So the requirement to recognise services in-kind in IPSAS financial statements would go along with the ability to measure them in a way that achieves the qualitative characteristics and takes account of the constraints on information.

Appropriate disclosure about the treatment services in-kind should be required in any case if these are material to the public sector entity.

11. Preliminary view 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

We concur with the view that non-exchange transactions related to both universally accessible services and collective services do not impose performance obligations on the resource recipient. They should therefore be accounted for using the Extended Obligating Event Approach.

For clarity, we presumed that the question covered both transactions without performance obligations and also without stipulations (consistent with paragraph 6.36 of the CP).

12. Preliminary view 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

We agree that resources linked to non-exchange transactions for universally accessible services and collective services should be expensed as services are delivered as no related obligating event exists.

13. Preliminary view 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

We agree with the IPSASB that the approach taken for grants, contributions and other transfers given, which are non-exchange expenses, should mirror the accounting treatment adopted for equivalent revenue transactions.

Transfers between entities that are part of the same consolidation scope are frequent in the public sector. Mirroring the accounting treatment for similar non-exchange revenue does not only makes sense from a conceptual point of view but it should also facilitate elimination of inter-government balances and transactions in the consolidation process.

We therefore support IPSASB's proposal to apply the PSPOA for grants, contributions, and other transfers given and that contain either performance obligations or stipulations. The five-step revenue recognition approach should be reconfigured from the perspective of the resource provider.

14. Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

We agree with IPSASB's preliminary view to measure non-contractual receivables initially at face value (legislated amount) of the transaction and record any amount expected to be uncollectible as an impairment. This accounting treatment enhances transparency and accountability as to the collection of public money.

15. Preliminary view 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

We agree that non-contractual receivables should be subsequently measured at fair value.

16. Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- a) Cost of Fulfilment Approach;**
- b) Amortised Cost Approach;**
- c) Hybrid Approach; or**
- d) IPSAS 19 requirements?**

Please explain your reasons.

We recommend to adopt the hybrid approach for the subsequent measurement of non-contractual payables. By analogy to the accounting treatment of financial liabilities, we believe that the amortised cost approach should be applied to non-contractual payables that are certain in timing and amount. If however cash flows are uncertain in timing and amount, the cost of fulfilment approach should be adopted.



Accounting for Revenue and Non-Exchange Expenses

ICAEW welcomes the opportunity to comment on the *Accounting for Revenue and Non-Exchange Expenses* consultation paper published by the International Public Sector Accounting Standards Board (IPSASB) in August 2017, a copy of which is available from this [link](#).

This response of 15 January 2018 has been prepared on behalf of ICAEW by its Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. Comments on public sector financial reporting are prepared with the assistance of the Faculty's Public Sector Financial Reporting Development Committee. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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MAJOR POINTS

Support for the consultation paper

1. We welcome the opportunity to contribute to this consultation on *Accounting for Revenue and Non-Exchange Expenses* in the public sector. We support IPSASB's broader strategy of focusing on public sector specific accounting issues since that is where there is a sizable gap in current accounting literature. It is in the public interest for more governments to adopt high quality internationally recognised accounting standards and the attractiveness of adopting IPSASs will increase with a wider coverage of relevant accounting issues.
2. This Consultation Paper (CP) proposes to broaden the IFRS 15 five step revenue recognition model to make it more suitable for the public sector. Whilst we do not disagree with the main proposals, care should be taken not to diverge from IFRS 15 unnecessarily. Close alignment between IPSASs and IFRSs will make adoption of IPSASs easier for governments as they would then have access to the IFRS talent pool. Every divergence diminishes that advantage.

Opportunity to professionalise

3. Adopting a Public Sector Performance Obligor Approach which is closely aligned to IFRS 15 could introduce a more professional approach to recognition of transactions. In the UK, most government entities are now required to clearly spell out their objectives and how these will be achieved, using financial reporting as a way to measure success. Adopting IFRS 15 would help in this drive to put more emphasis on results and performance.
4. Processes and systems may need updating to enable the identification of 'binding' arrangements and performance obligations and to allow the allocation of consideration to each performance obligation. Introducing a methodology that focuses on performance obligations would lead to better accountability and, ultimately, transparency if governments were to fully adopt this approach.

Principles of the conceptual framework

5. In Chapter 4, the CP proposes an update to IPSAS 23 to change the way transactions are recorded if time requirements are present. It appears to us that IPSASB are trying very hard to create liabilities when there are none. If a grant does not contain any conditions that require an entity to potentially return resources, then no liability exists, even if a time stipulation has been imposed.
6. We appreciate that entities would rather match grant income with intended expenditure but if monies received have no conditions attached, then anything but recognising them in full in the income statement would not be a faithful representation of the transaction.

UK government's IFRS 15 implementation

7. We would like to highlight some discussion points, which may be of interest, that took place in the UK when contemplating the adoption of IFRS 15 in the public sector (which has been adopted in full without any adaptations, although tax, duties, fines and penalties are out of scope):
 - For fees, charges and levies, the "contract" was considered to be the legislation or regulations providing the ability for the entity to impose a charge on the customer and the requirement for the customer undertaking the relevant activities to be liable to pay the charge. The legislation would also provide the enforceability of the obligations on both parties.

- Performance obligations and separate transactions prices for fees, charges and levies were identifiable.
- Some highlighted the lack of enforceability for contracts between government bodies and whether this posed an issue where IFRS 15 states contracts need to be legally enforceable. This was not seen as an issue since it is expected that government bodies treat agreements between themselves as if it were akin to an enforceable contract.
- Applying the portfolio approach may be more cost effective than applying the standard to individual customers, especially for those entities which impose charges on a significant number of customers. Entities will need to ensure they evaluate which characteristics constitute a portfolio and develop the controls and processes needed to account for that portfolio.

RESPONSES TO CONSULTATION PAPER REQUEST FOR COMMENTS

Question 1

Preliminary View 1

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

8. Yes, we agree with PV 1. Transactions on commercial terms, thus containing all elements required by IFRS 15, should be accounted for using that standard.

Question 2

Preliminary View 2

Because Category A transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

9. We agree with PV 2 in relation to taxation, but some transfers may be accounted for using a modified performance obligation approach. Ideally, we would like to see a solution where an updated IPSAS 23 is predominately for tax, but fees, levies and charges are dealt with under a Public Sector Performance Obligation Approach (PSPOA), based on IFRS 15. See below for more detail.
10. The first step of the five-step recognition model in IFRS 15 is 'identify a contract with a customer'; the CP rightly proposes (paragraphs 4.31 – 4.35) a widening of this step by changing it to 'identify a binding arrangement'. We believe that a binding arrangement could exist in relation to fees, levies and charges. The UK government, in discussing the adoption of IFRS 15, concluded that the 'contract' in these circumstances would be the legislation or regulations enabling a government entity to impose a charge on a customer and the customer

being liable to pay the charge. The legislation would provide the enforceability of the obligations on both parties. Therefore legislation and regulations could underpin the binding arrangement, enabling fees, levies and charges to be accounted for using the PSPOA.

Question 3

Specific Matter for Comment 1

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are other areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

11. We do not have any additional recommendations to make for further guidance regarding IPSAS 23. We would only note that care is required in adding too much detailed guidance into what should remain a principles-based standard.

Question 4

Preliminary View 3

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligor Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

12. We agree with PV 3.
13. As the CP states, there are advantages and disadvantages to using either the exchange/non-exchange method or the PSPOA, but on balance we favour the latter. We believe that the PSPOA will have two key benefits for the public sector:
 - a. access to wider talent pool as standards remain aligned with IFRS;
 - b. a more commercial backdrop to accounting for revenue should enable stakeholders to hold an entity to account more easily as performance measures become more transparent.

Question 5

Specific Matter for Comment 2

The IPSASB has proposed to broaden the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29 – 4.35);

Step 2 – Identify the performance obligations (paragraphs 4.36 – 4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);

Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and

Step 5 – Recognise revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

- 14.** We support the application of a performance obligation approach for Category B transactions. Not all public sector transactions will have the characteristics necessary to adopt the IFRS 15 model as it stands, therefore the current proposals to broaden the model seem sensible.
- 15.** We do not recommend that IPSASB broaden the five-step model beyond what is already proposed in the CP at this stage but considers a post implementation review to gather the facts about how this standard is performing, from a preparer and also from a user perspective.
- 16.** The CP is right to highlight that revenue should be recognised when an entity fulfils its performance obligations by delivering services in binding arrangements as well as when transferring a promised good or service to a customer. This scenario will need careful consideration for tripartite arrangements when services are not being delivered directly to the resource provider.

Question 6

Specific Matter for Comment 3

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- a) Option (b) – Require enhanced display/disclosure;**
- b) Option (c) – Classify time requirements as a condition;**
- c) Option (d) – Classify transfers with time requirements as other obligations; or**
- d) Option (e) – Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.**

Please explain your reasons.

- 17.** For reasons outlined in our response to PV 3, we favour Approach 2 as opposed to Approach 1.
- 18.** If IPSASB were to implement Approach 1, we would favour option (b) – require enhanced display/disclosure. We note that some preparers argue that IPSAS 23 is too restrictive in not allowing revenue to be recognised over time when funding is received for a specific purpose but there is no return obligation. However, if there is no liability (no obligation to return the funds) then monies received should not be deferred – it would not be faithfully representative, nor would it adhere to the conceptual framework principles.
- 19.** UK local government reserves are frequently used to ring-fence certain transactions/balances to show users of the accounts that they have been earmarked for specific future use. Acknowledging IPSASB's reluctance to introduce accounting principles akin to 'Other Comprehensive Income', we believe that similar outcomes could be achieved via enhanced disclosures within net assets/equity rather than pursuing option (e).

- 20.** We do not support option (c) or (d) as they are not conceptually sound propositions. These options create liabilities artificially which do not meet the definition of a liability in the conceptual framework.

Question 7

Specific Matter for Comment 4

Do you consider that the option that you identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

- 21.** As this CP states specifically, preparers find it challenging to make the distinction between exchange and non-exchange and we support additional guidance aimed at making that distinction easier. Although we prefer Approach 2, we support combining the option identified in SMC 3 with Approach 1, Option (a).
- 22.** IPSASB should explore whether the difficulties originate due to the current definitions or whether more implementation guidance is required, as long as this does not undermine the principles-based approach of the standard. Ultimately, judgements in certain circumstances will be required and accounting standards will not be able to provide guidance for all eventualities.

Question 8

Preliminary View 4

The IPSASB consider that accounting for capital grants should be explicitly addressed within IPSAS.

Do you agree with the IPSASB's preliminary view 4? If not please give your reasons.

- 23.** Due to the materiality of capital grants and their extensive use across most government entities, we agree with PV 4.

Question 9

Specific Matter for Comment 5

(a) Has the IPSASB identified the main issues with capital grants?

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

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

- 24.** We believe that IPSASB have captured the main issues regarding capital grants. We agree with the CP that the pattern of revenue recognition is the main issue concerning the accounting for capital grants. The lack of guidance has led some preparers to adopt IAS 20 *Government Grants* methodologies to account for capital grants which are not in line with the conceptual framework and result in non-comparable outputs.

- 25.** IPSASB should not follow the methodologies of IAS 20 since capital grants are recognised either as deferred income or as a reduction in the carrying value of the asset which is not in line with the conceptual framework if no conditions are attached to the grant.
- 26.** We recommend that grant income be accounted for in the same way as other revenue – if a grant is received without any conditions, recognise as revenue; if there are conditions, record a liability until these have been satisfied.

Question 10

Specific Matter for Comment 6

Do you consider that the IPSASB should:

- (a)** Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b)** Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c)** An alternative approach.

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

- 27.** Some international organisations, such as aid agencies and the UN, may have material services in-kind, but from our experience of UK government financial reporting, central and local governments generally do not have large services in-kind transactions. Unless IPSASB can provide more evidence of its usage across government jurisdictions and a need for further guidance in this area, we recommend (a) above, to retain the existing requirements of IPSAS 23.

Question 11

Preliminary View 5

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

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

- 28.** Yes, we agree with PV 5.

Question 12

Preliminary View 6

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

29. Yes, we agree with PV 6.

Question 13

Preliminary View 7

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

30. Yes, we agree with PV 7.

Question 14

Preliminary View 8

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

31. We agree that non-contractual receivables should initially be measured at the legislated amount – face value - with any amount expected to be uncollectible identified as an impairment. These receivables should be presented gross with any impairments identified separately.

Question 15

Preliminary View 9

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with IPSASB's Preliminary View 9? If not, please give your reasons.

32. Our favoured methodology for subsequent measurement of non-contractual receivables is approach 2 – amortised cost. We agree with the CP (paragraph 7.32) that non-contractual receivables resemble loans and receivables and should have the same subsequent measurement in accordance with IPSAS 29.

Question 16

Specific Matter for Comment 7

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfilment Approach;
- (b) Amortised Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

- 33.** We favour the amortised cost approach. We agree with the CP (paragraph 7.43) that non-contractual and contractual payables are similar and should be accounted for similarly. In many cases non-contractual payables are underpinned by legislation which gives these transactions qualities similar to those based on a contract. We do not believe the hybrid approach to be appropriate as it could easily lead to overly-complicated accounting and disclosures which will not help users.

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Jakob Prammer
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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 Canada
Per e-mail/online

16th January 2017

Comment on the Consultation Paper on Accounting for Revenue and Non-Exchange Expenses

Dear Joanna and John,

This response was prepared by the IPSAS working group. The IPSAS working group is an internal group of professionals from the Austrian Federal Ministry of Finance and the Austrian Court of Audit. We meet regularly to discuss IPSASs and IPSAS related issues as well as corresponding implications for the Federal Government level.

Summary

We do not apply IPSAS 23 on a federal government level and do not consolidate all controlled entities (e.g. controlled GBEs) to our financial statements therefore our experience and feedback is very limited. We discussed the options from our theoretical point of view trying to understand what this could mean for specific Austrian examples. Our discussions were mostly about how to account for certain NEE-examples (e.g. railway infrastructure, multi-year grants) we are facing difficulties with accounting for at the moment. We've had only a very short discussion about revenue examples.

Chapter 3: Analyzing Public Sector Transactions with Reference to Performance Obligations

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

Yes, we agree

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the

IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Yes, we agree

We had a short discussion about having a new number for an updated IPSAS 23 to avoid confusion. Especially if the PSPOA is chosen for Category B transactions the old thinking of "exchange/non-exchange" will be replaced by the concept of "performance obligations". It could be misleading to keep the old number although the concept has changed.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- a) Social contributions; and/or
- b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

We do not apply IPSAS 23 for accrual accounting of revenue.

Chapter 4: Revenue Transactions (Category B) – Recognition Approaches

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

We couldn't find a conclusion to this question.

Our discussion was about whether identifying performance obligations is more intuitive and practicable than deciding if a transaction is exchange or non-exchange. To find a conclusion we would have to apply both approaches on important examples.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);

Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);

Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and

Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

Yes, we agree. The steps are clear to us. From our perspective the main question is whether “Step 2 – Identify performance obligations” is leading to better accounting and is more practicable than the existing Exchange/Non-Exchange distinction.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- a) Option (b) – Require enhanced display/disclosure;
- b) Option (c) – Classify time requirements as a condition;
- c) Option (d) – Classify transfers with time requirements as other obligations; or
- d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

We prefer

- b) Option (c) – Classify time requirements as a condition and
- c) Option (d) – Classify transfers with time requirements as other obligations.

If d) Option (e) is chosen the meaningful labelling of the line item in net assets/equity seems important to us

We don't like Option (b) because of the accounting

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

- a) Yes
- b) No

Please explain your reasons.

Yes, guidance would be helpful (especially if we start applying IPSAS 23 for revenue and NEE transactions)

Chapter 5: Current IPSAS 23 Issues – Capital Grants and Services in-kind

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons.

Yes, we agree. Capital grants are important for GFS (and in our case ESA) statistical accounting. For the general government (Bund) especially accounting for capital grants from the resource provider perspective should be explicitly addressed. Due to the outsourcing in the 1990s most investment activities are carried out by outsourced companies, which are the legal and economic owners of these investments. For instance, building construction is under the remit of the public facility management company, BIG; road works and road maintenance are carried out by ASFINAG and railway infrastructure investment by the railway company ÖBB Infrastruktur AG. The federal government contributes to these investments through capital grants.

Specific Matter for Comment 5 (following paragraph 5.5)

- a) Has the IPSASB identified the main issues with capital grants?
If you think that there are other issues with capital grants, please identify them.
- b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?
Please explain your issues and proposals.

a) Yes, our discussion was mainly about what is a condition compared to a restriction when applying it to our federal government context. Expense transactions are more important to us than revenue transactions. Examples of conditions and restrictions would be very useful. One of the largest cases in Austria would be the capital grants towards the ÖBB Infrastruktur AG:

In the Grant funding agreement the contractual partners (ÖBB Infrastruktur AG and federal government) agree on the funding of infrastructural investments planned for the next six years. These future investments are displayed in the budget managing system as a future obligation but recognition in the accounting does not take place.

The recognition event is the time the investment is carried out, irrespective of the time the investment (e.g. tunnels) becomes operational. At the end of each year the company states, the actual amount of investments and this is the time the expense and liability is recognized in the financial statement of the federal government. From our point of view, there are no conditions/stipulations in the Grant funding agreement.

b) No, not directly, but there is a discussion within the federal level to adopt the approach of recognizing the revenue over the useful life of the asset financed, because this was introduced on the level of States (Länder) and municipalities (Gemeinden) with the new budgeting and accounting regulations "VRV 2015" that will apply accrual budgeting and accounting from 2020 onwards. On federal level it would have little impact because the "Bund" is not really a recipient of capital grants. Could you explain why the approach of recognizing the revenue over the useful life of the asset financed by the grant is not compatible with the Conceptual Framework?

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or

- b) Modify requirements to require services in-kind that meet the definition of an asset to be recognized in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- c) An alternative approach.

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

We prefer a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind.

Chapter 6: Non-Exchange Expenses – Recognition Approaches

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Yes, we agree.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Yes, we agree. We had a short discussion about what "services are delivered" means regarding multi-year grants for research without performance obligations (we usually have contracts that define in detail what has to be done to receive a grant).

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

Yes, we agree. A symmetrical approach seems to be most practicable to us.

Chapter 7:

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Yes, we agree.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

We didn't find a conclusion.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- a) Cost of Fulfillment Approach;
- b) Amortized Cost Approach;
- c) Hybrid Approach; or
- d) IPSAS 19 requirements?

Please explain your reasons.

We didn't find a conclusion. We are using the face value for receivables in general (discounted if they are long-term). For liabilities/payables we are using the amount that has to be paid (without discounting for long-term payables).



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CASLB/G/10

January 15, 2018

Mr. Ian Carruthers
Chairman,
International Public Sector Accounting Standards Board,
The International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2 CANADA

Dear Ian Carruthers,

Sub: Comment on Consultation Paper on '*Accounting for Revenue and Non-Exchange Expenses*'

We are pleased to provide comments on the Consultation Paper on '*Accounting for Revenue and Non-Exchange Expenses*' issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC). Our comments are enclosed with this letter.

Please feel free to contact us, in case any further clarification in this regard is required.

Thanking you,

Yours sincerely,

(CA. Rajesh Sharma)

Central Council Member & Vice-Chairman
Committee on Accounting Standards for Local Bodies
The Institute of Chartered Accountants of India
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Comments on the Consultation Paper issued by IPSASB on 'Accounting for Revenue and Non-Exchange Expenses'

Preliminary View 1

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

ICAI's View:

Yes, we agree with the IPSASB's preliminary view. An IPSAS based on IFRS 15 would be more appropriate for 'Category C' transactions (Exchange Transactions) in place of IPSAS 9 and IPSAS 11.

Preliminary View 2

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

ICAI's View:

Yes, we agree as the transactions categorised as 'A' do not have any performance obligation. A separate Standard should be there to deal with such transactions. As



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few issues have been identified in the existing IPSAS 23, updating the same appears logical for prescribing the accounting treatment for 'Category A' transactions.

Specific Matter for Comment 1

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

ICAI's View:

In India, Government Accounting is on cash basis. Only a few pilot studies have been conducted in Government Departments for conversion from cash basis of accounting to accrual basis of accounting and some Urban Local Bodies (Local Governments) have shifted from cash to accrual basis of accounting which are also at a very nascent stage. For Government Accounting, any accrual based Accounting Standards/ IPSASs are yet to be implemented in India. Accordingly, in the absence of practical implementation of IPSASs, the areas that are further required to be dealt in IPSAS 23 have not been identified.

However, we seek one clarification whether "Deferred collection of taxes" i.e. collection of taxes which is deferred beyond the current period, would be different from the "Taxes with long collection period". In case both terminologies have different connotations, we suggest to cover the accounting in respect of "Deferred collection of taxes" also in the IPSAS 23.



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Preliminary View 3

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

ICAI's View:

We do not agree with the view that 'Category B' transactions should be accounted for using the Public Sector Performance Obligation Approach due to the following reasons:

- Performance obligation approach does not seem to be appropriate for 'Category B' transactions, as the transactions with only time requirement do not have any performance obligation.
- 'Category B' transactions are non-exchange by nature. Distinction of exchange and non-exchange assumes great importance in Government Sector and any other classification will make it complicated and confusing to understand.
- As 'Category B' transactions are non-exchange transactions, the accounting for the same can be dealt with in updated IPSAS 23.

Specific Matter for Comment 2

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 - Identify the binding arrangement (paragraphs 4.29 - 4.35);
- Step 2 - Identify the performance obligation (paragraphs 4.36 - 4.46);
- Step 3 - Determine the consideration (paragraphs 4.47 - 4.50);
- Step 4 - Allocate the consideration (paragraphs 4.51 - 4.54); and
- Step 5 - Recognize revenue (paragraphs 4.55 - 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.



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ICAI's View:

We do not recommend PSPOA for 'Category B' transactions. (please refer our reply to PV 3 (above) and SMC 3 (below))

Specific Matter for Comment 3

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) - Require enhanced display/disclosure;
- (b) Option (c) - Classify time requirements as a condition;
- (c) Option (d) - Classify transfers with time requirements as other obligations;
- or
- (d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

ICAI's View:

In our view, option (b) '*Require enhanced display/ disclosure for transactions with time requirements*' of Approach 1 - *The Exchange/ Non-Exchange Approach & Update IPSAS 23* seems appropriate to apply for 'Category B' revenue transactions. Though this option will not lead to any change in existing accounting of such transactions but would provide information indicating the time-frame over which the resource provider intends the transfer to be used, through notes disclosures and/or a disaggregation of revenue in the Statement of Financial Performance which will meet information requirements of users.

Updating the IPSAS 23 with the above option would also not lead to any contradictions with the Conceptual Framework of IPSAS Board.

Specific Matter for Comment 4

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) - Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No



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Please explain your reasons.

ICAI's View:

Yes, we agree that the option (b) – '*Require enhanced display/ disclosure*' as identified by us as the appropriate option for updating IPSAS 23 should be used in combination with option (a) – '*Provide additional guidance on making the exchange/ non-exchange distinction*'.

Using option (b) alone for updating the IPSAS 23 would not serve the purpose completely as it may resolve the issue with regard to 'Category B' transactions but will not resolve the issues with regard to exchange and non-exchange determination.

Distinction of exchange and non-exchange transactions is very important in Government Sector and additional guidance may be required with regard to what "directly" and "approximately equal value" currently used in the definitions of exchange and non-exchange transactions, which are difficult to apply for determination of exchange and non-exchange transactions, as identified in this CP.

Accordingly, option (b) would need to be exercised along with the option (a).

Preliminary View 4

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

ICAI's View:

We agree that capital grants have not been discussed explicitly in the existing IPSAS 23 and the same should be discussed explicitly.

Specific Matter for Comment 5

(a) Has the IPSASB identified the main issues with capital grants?

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



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(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

ICAI's View:

Yes, we agree with the issues as identified in this Consultation Paper with regard to Capital Grants.

Specific Matter for Comment 6

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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

ICAI's View:

IPSAS Board may consider to adopt option (b) (from above mentioned options) modify the requirements to require services in kind that meet the definition of an asset to be recognised in the financial statements provided that the same can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information.

However, the IPSASB may consider prescribing an alternative to record services-in-kind at nominal value (symbolic value) of Currency Unit 1/- (with a detailed disclosure for the services in the notes to financial statements).

Preliminary View 5

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on



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the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

ICAI's View:

We agree with the IPSASB's preliminary view. Non-Exchange transactions related to universally accessible services and collective services that impose no performance obligations on the resource recipient should be accounted for under the *Extended Obligating Event Approach* (reverse IPSAS 23 approach).

Preliminary View 6

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

ICAI's View:

We agree with the views of IPSASB that the resources applied for non-exchange transactions related to universally accessible services and collective services should be expensed as services are delivered as there may be no obligating event in such cases.

Preliminary View 7

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted

for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.



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ICAI's View:

The Consultation Paper in the paragraph 6.42 provides that the approach in a Non-Exchange Expenses Standard should be mirror to the approach adopted for equivalent revenue transactions. The grants, contributions and other transfers with performance obligation or stipulations would be classified as 'Category B' transactions. Therefore, we suggest that the grants, contributions and other transfers that contain either performance obligations or stipulations should be accounted for using the Extended Obligating Event Approach (reverse updated IPSAS 23 approach) as we are in favour of updating IPSAS 23 (see our reply to preliminary view 2 & 3) instead of adopting the PSPOA for 'Category B' transactions.

It may also be noted that the result for the recognition of expenses in case of "Multiyear Research Grant" (Category B transaction), on page no. 85-87 of Appendix B on "illustrative examples", is same under both approaches as suggested in this CP.

Preliminary view 8

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

ICAI's View:

We agree with the IPSASB's preliminary view to measure non-contractual receivables at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as impairment at the initial recognition.

Preliminary View 9

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.



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ICAI's View:

We do not agree with the subsequent measurement of non-contractual receivables using fair value approach because of the issues such as selection of market rate in the absence of any market for many of the transactions arising from non-contractual receivables and problems in identifying any similar financial instruments with the same terms and risk profile, etc.

Specific Matter for Comment 7

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach:
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

ICAI's View:

We suggest the cost of fulfillment approach for subsequent measurement of non-contractual payables as this approach is in accordance with the IPSASB's Conceptual Framework and relatively straightforward to apply as mentioned in this CP.

Alternatively, IPSAS 19 requirements may be used for subsequent measurement of non-contractual payables as it would also be relatively straightforward to apply.

A handwritten signature in blue ink, consisting of a stylized 'X' or 'Z' shape with a horizontal line extending to the right.

Cour des comptes



À Paris, le 12 janvier 2018

Comité consultatif sur la normalisation des comptes publics*Le Président***Subject: IPSAS Board Consultation Paper (CP) on « Accounting for Revenue and Non-Exchange Expenses »**

The Advisory Committee of the French Financial Jurisdictions on Public Sector Accounting Standards expresses following views on the above-mentioned Consultation Paper. Those views concern the specific situation of international organizations, as the French Cour des comptes is currently the external auditor of five of such organizations¹, which publish IPSAS-based financial statements.

International organizations are increasingly dependent on multi-year funding. A twelve-month period is often not long enough to implement a programme, due to context-specific factors. Longer-term funding allows international organizations to improve the quality and effectiveness of their programmes, as well as the efficiency and value-for-money of their interventions, staff management and partnerships.

The income of international organizations is usually composed by mandatory contributions from Member States (known as “regular budget”), and/or voluntary contributions and pledges of voluntary contributions confirmed in writing. Both types of revenue are accounted for as non-exchange transactions under “IPSAS 23 - *Revenue from Non-exchange Transactions (Taxes and Transfers)*”.

¹ World Food Programme (WFP), United Nations Educational, Scientific and Cultural Organization (UNESCO), Organisation for Economic Co-operation and Development (OECD), International Criminal Court (ICC) and Preparatory Commission for the Comprehensive Test-Ban Nuclear Treaty Organization (CTBTO).

Multi-year pledges of voluntary contributions are commitments made by a donor for one or more financial periods.

The accounting treatment depends on the existence of stipulations from the donors regarding the use of the funds, and whether those stipulations are **conditions or restrictions**, as defined by IPSAS 23. In the case of a condition (an obligation to use the funds in a specified manner, and an enforceable return obligation in the event of non-compliance), a liability is recognized and the revenue is recognized only when the condition is fulfilled. In the case of a simple restriction, no liability is booked and the revenue is immediately recognized.

IPSAS 23 does not directly address time period stipulations. As a result, various applications can be observed within international organizations:

- ✓ Some interpret the stipulation of a period of time as a restriction and therefore no liability is recorded (contributions designated for subsequent years are recognized in the initial year of contract signing);
- ✓ Other organizations interpret the stipulation of a period of time as a condition, with the initial recognition of a liability and the revenue recognition along the implementation of the programmes funded by those contributions.

The Committee considers that timing requirements should be seen as **conditions**, as proposed in the IPSASB's Consultation Paper.

The relevant principle of recognizing revenue and expenses at a close time should not be circumvented by strict application of current IPSAS 23. Such an interpretation hinders the readability of the international organizations' statements of financial performance by overstating revenue and provides a distorted image of their net assets by underestimating their liabilities.



Raoul BRIET



Paris, January 19, 2018

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Re: Response to Consultation Paper Accounting for *Revenue and Non-Exchanges Expenses*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Consultation Paper *Accounting for Revenue and Non-Exchanges Expenses* published in August 2017.

The CNoCP welcomes the overall approach retained by the IPSASB that focuses on the features of transactions specific to the public sector. In that sense we would strongly recommend that the application of IFRS 15 *Revenue from Contracts with Customers* to relevant transactions in the public sector should be carefully and comprehensively thought through. IFRS 15 is effective as from 1 January 2018 in the private sector; hence as of now, no thorough feedback exists on its application. This makes it difficult to assess the impact and efficiency of its adaptation to the public sector.

On the other hand, the CNoCP understands the need to explore convergence with the principles set out for the private sector on revenue recognition. Because IFRS 15 was commented upon extensively as part of the IASB's process, we will not comment upon its merits or demerits as to



its application to category C transactions¹. We will rather focus on issues that could be raised if the performance obligation approach was retained to account for category B transactions².

In a context of increased attention to performance to evaluate public finance management, we would broadly agree that exploring an approach based on the identification of performance obligations within a transaction is conceptually sound. It provides for a framework that relies on the exercise of judgement. We would support that path forward as long as it allows for various transactions across jurisdictions to be accounted for in a relevant manner taking into account as many elements of context as possible. In that case, we would strongly advise that extensive application guidance should be available to constituents. Category B transactions should definitely be the focal point of future steps for that project.

As much as convergence is a key driver of IPSASs development, we however believe that IPSAS 23 still has merits, though it would need to be revised to ease its application. Current IPSAS 23 fails to provide pragmatic requirements on how to account for stipulations such as time requirements, namely in multi-year funding agreements; this leads to difficulties in identifying the revenue recognition point in time.

With respect to revenue from category A transactions³, we are of the view that a reliable measure of revenue should be a key factor of revenue recognition. This is why in France the government does not recognise estimated revenue from taxable income not fully known until a tax return is filed. Rather, the government recognises revenue upon reception of the tax return. We believe that this is a practical relief that bears a positive cost/benefit ratio while still providing relevant information on a year on year basis.

We would expect further work as to the articulation between conditions as in IPSAS 23 *Revenue from Non-Exchange Transactions* and performance obligations as in IFRS 15. We believe that the performance obligation approach would better reflect the Conceptual Framework's qualitative characteristics. From our standpoint, conditions refer to the legal form of the transactions rather than to its substance. However, before we can perform an in-depth analysis along these lines, we

¹ Category C transactions are transactions that involve the transfer of promised goods or services to customers as defined in IFRS 15, typically transactions similar to those in the private sector.

² Category B transactions are transactions that contain performance obligations (IFRS 15) or stipulations (IPSAS 23), but do not have all the characteristics of transactions within the scope of IFRS 15, typically capital grants.

³ Category A transactions are transactions that with no performance obligation or stipulation, typically taxes and transfers (non-exchange transactions).



would need further insight on the effects on the financial statements of a performance obligation approach on category B transactions.

Finally, we note that the Board decided, at the 2017 December meeting, to phase-in the whole project. They now propose three streams to the project on Revenue and two streams to the project on Non-Exchange Expenses. We understand that that new timeline is meant to fast track those streams where the Board can reach consensus quickly (namely on category A and C transactions), only to allow more time to explore the more complex category B transactions. However, we would recommend that the new requirements should be effective as a whole at one point in time rather than on a stream by stream basis; this is to ensure consistency of accounting treatments between the various categories of transactions once they all have been fully explored.

In that context, we decided that we would provide overall responses to the detailed questions set out in the Consultation Paper. We will expand further upon those points as the various project streams progress and as further consultation documents are published for public comments.

Yours sincerely,

Michel Prada



APPENDIX

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9 Revenue from Exchange Transactions, and IPSAS 11 Construction Contracts with an IPSAS primarily based on IFRS 15 Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15;*
- and*
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.*

Do you agree with the IPSASB's Preliminary View 1? Please give your reasons

We understand that the objective of the new timeline for the Revenue project is to progress quickly on the accounting treatment for category C transactions that are similar to the private sector. However, we would like to stress upfront that category A transactions -and to a lesser extent category B transactions- are not only specificities of the public sector, but are also the most significant transactions in amounts and volumes. We believe that stating, in any communication on the progress of the project, that the Board is well aware of the relative significance of the transactions is critical to the public interest in the project.

We would agree with the IPSAS Board that convergence with IFRS 15 is the right way forward for the revenue recognition of those transactions that are similar to the private sector's because category C transactions are akin to revenue transactions in the private sector and because IPSASs are to converge with IFRSs, except in those instances where the public sector specificities call for departures from IFRSs. We also note that IFRS 15 was already extensively commented on as part of the IASB's due process.

However, we would question the timing of such a convergence project; IFRS 15 is indeed effective from 1 January 2018 and we are aware that private sector entities struggle with its implementation. We would rather the Board wait for implementation in the private sector to settle down before taking a convergence project onto the agenda. Areas of concerns in the private sector include the identification of performance obligations in construction contracts and the determination of the timing of revenue recognition. Unresolved implementation issues in the private sector are likely to arise in the public sector as well, all the more as the cost



benefit ratio is a prevalent constraint; this might be the case for defence construction contracts for instance.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? Please give your reasons.

IPSAS 23 currently requires revenue from category A transactions such as taxes to be recognised when the event giving rise to the taxation took place, as long as measurement is reliable. In several jurisdictions, part or all the amount of taxes to be collected will not be reliably measurable at the point in time when the event giving rise to those taxes occurs. That is mainly because the Inland Revenue department will know of those taxes to collect upon receiving tax payers' returns, only after the taxable event took place.

Therefore, an updated IPSAS 23 should focus on the ability to reliably measure the amount of taxes and on the consequences on the timing of recognition. This is an area of wide implementation issues across jurisdictions where preparers need detailed guidance.

However, because the approach for category B transactions will be addressed last, and because in some cases it might be unclear as to where the drawing line is between transactions with or without performance obligation, we would strongly recommend that the scope of category A transactions should be clearly defined and assessed on the basis of practical examples. There could be an argument that real transactions are a continuum ranging from no performance obligation at all to containing performance obligations. In addition, it could also be useful, in the public sector, to explore performance obligations as being satisfied by the transfer of control of service potential rather than that of economic benefits; as a consequence, one could question the need for different standards.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or*
- (b) Taxes with long collection periods.*



If you believe that there are further areas where the IPSASB should consider providing further guidance in and updated IPSAS 23, please identify these and provide details of the issues that you have encountered together with an indication of the additional guidance you believe is needed.

In France, the general principle for social contributions recognition is upon the realisation of the taxable event, actually in line with the general recognition principle in IPSAS 23. However, some contributions or taxes (it is not always easy to draw the line clearly between the two) remain based on a tax return by individuals or households because the reliable measurement criterion fails to be met. In those instances, and should an updated IPSAS 23 be retained, further guidance on the application of the general recognition principle would be needed.

With respect to taxes with long collection periods, we actually fail to see to what they would refer in practice in our jurisdiction. We would need further explanations as to what transactions are at stake here.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

We would agree with Preliminary View 3 in that we believe that the performance obligation approach conceptually fits better the principle of substance over form than conditions or restrictions that are more of a legal nature. Stipulations are set out in an agreement while performance obligation requires a judgement call on a thorough analysis of the economic effects of a transaction.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 - Identify the binding arrangement (paragraphs 4.29 – 4.35)

Step 2 - Identify the performance obligation (paragraphs 4.36 – 4.46)

Step 3 - Determine the consideration (paragraphs 4.47 – 4.50)

Step 4 - Allocate the consideration (paragraphs 4.51 – 4.54)



Step 5 - Recognize revenue (paragraphs 4.55 – 4.58)

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

While we agree in principle on how each of the IFRS 15 steps could be broadened, we would like to draw attention on the more practical aspect of implementing those steps by reference to the difficulties that private sector entities currently experience. We believe that steps 1 and 2 - that consist in identifying the performance obligation within an identified binding agreement- are critical issues that need to be addressed in priority.

In addition, we note that the step by step approach, while intellectually sound to help analyse a transaction, might also prove to be more fastidious to implement as judgement will have to apply to all and every step.

We understand further research will be performed on that very subject and we will closely follow-up and comment on future developments.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;*
- (b) Option (c) – Classify time requirements as a condition;*
- (c) Option (d) – Classify transfers with time requirements as other obligations; or*
- (d) Option (e) - Recognize transfers with time requirements in net assets/ equity and recycle through statement of financial performance.*

Please explain your reasons.

We note that if time requirements were considered conditions as in option (c), the application of IPSAS 23 would lead to the recognition of an asset and a liability that would be settled overtime, hence providing for overtime recognition of revenue. While we would agree on the overtime recognition of revenue that is in line with current practice in our jurisdiction, we would express reservations as to the additional burden to the statement of financial position as long as cash hasn't been received.



Before we can explore further the accounting for time requirements, we would like to get more insights as to the effects on a mirror approach between revenue and expenses. Also, we do not have practical examples in our jurisdiction of agreements containing time requirements only; there are always other stipulations such as the implicit existence of the entity.

In addition, we observe that the fact that time requirements are difficult to classify as conditions or restrictions is a reason why the performance obligation approach would need to be further explored for category B transactions.

Finally, we note that (c) is inconsistent with the Conceptual Framework and that (e) would require the introduction of the concept of Other Comprehensive Income (OCI).

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Because the definition of an asset includes a reference to the service potential as well as to the economic benefits, the distinction exchange/non-exchange seems artificial in the public sector.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

Capital grants are a major source of financing in the public sector in France. Because they serve the purpose of providing funds to entities to build or acquire long-term assets that will be mainly used to provide a service potential, and because they may take various forms, there is a need to address those transactions explicitly, both from the provider and the beneficiary perspectives.

Also, with a view to consistency with other IPSASs, it could be useful to explore instances where capital grants may take the form of concessionary loans.



In that sense we would agree on the phased-in new timeline for the whole project that would allow for more time to address category B transactions.

Specific Matter for Comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants?

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

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

We believe that there are other issues with capital grants that the IPSAS Board should consider, for instance from the grantor's perspective, i.e. from the expense side. To illustrate the issue, in France, local authorities may grant subsidies to beneficiary entities for the acquisition or construction of long-term assets, controlled by the beneficiary entities, that serve a service potential as part of a specific public mission. Those subsidies are substantially equivalent to the direct acquisition or construction of the long-term assets by the grant provider; therefore, at the level of the individual reporting entity, grants provided are considered assets of the providing entity that generate service potential, as long as they meet strict recognition criteria.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

(a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or

(b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or

(c) An alternative approach.

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

In our jurisdiction, services in-kind are recognised only if they can be measured reliably. However, we haven't explored that issue further yet in the context of the Consultation Paper.



The new phase-in of the project will probably allow providing additional comments at a later stage.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under the Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Notwithstanding the difficulties that may arise from the definition of the scope of the Social Benefits project with respect to universally accessible services, we believe that collective goods and services should be expensed as delivered and future expenses are not a present obligation of the public sector entities. Therefore, we would approve of any approach that would allow for the abovementioned accounting treatment.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

We agree.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

From the perspective of developing consistent mirror approaches, we would agree that the PSPOA is the way forward. However, at this stage of the project, we would need further understanding of how the performance obligation would apply on the revenue side before we can reach an informed decision on the PSPOA.

***Preliminary View 8 (following paragraph 7.18)***

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSAS's Preliminary View 8? If not, please give your reasons.

We agree with the use of face value at initial recognition of non-contractual receivables. However, we would not book impairment for uncollectible amount upon initial recognition. We would rather recognise impairment on an incurred loss model basis.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

As stated in our response to the above question, we recognise impairment at each reporting date based on face value at initial recognition. Therefore, we would not agree with final pronouncements requiring the use of fair value for subsequent measurement of non-contractual receivables.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;*
- (b) Amortized Cost Approach;*
- (c) Hybrid Approach; or*
- (d) IPSAS 19 requirements?*

Please explain your reasons.

We would support a best estimate approach as in IPSAS 19.



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Ian Carruthers
Chairman
International Public Sector Accounting Standards
Board
International Federation of Accountants

Submitted via website

23 January 2018

Comments to IPSASB's Consultation Paper, Accounting for Revenue and Non-Exchange Expenses

Dear Mr. Carruthers,

We are pleased to respond to the IPSASB's Consultation Paper on Accounting for Revenue and Non-Exchange Expenses.

We support the development of high quality financial reporting standards for the public sector. Against this background we are pleased to note that the IPSASB intends to close the gap on accounting for non-exchange expenses within its suite of standards.

Based on our experience, preparers encounter difficulties when applying the accounting requirements stipulated in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. We therefore encourage the IPSASB to thoroughly assess the practical difficulties in applying IPSAS 23. Recognizing non-exchange revenues based on differing between conditions and restrictions does in our view not cover the full complexity of accounting for non-exchange revenues. Especially the multi-year financing of public sector organisations by grants without conditions can lead to a distortion of an organisation's financial position and financial performance. As a result, we encourage the IPSASB to build on the Conceptual Framework and to discuss the recognition of deferred inflows and deferred outflows in that context.

Another area where we see a need for improvement is accounting for taxes. Whereas we in general support the approach to recognize economic events in the reporting period in which they occur, the discussions around harmonizing public sector accounting in Europe have shown in the area of tax revenues that European Member States face difficulties in the practical application of the taxable event approach. IPSAS 23 foresees the use of statistical models to recognize tax revenues based on the taxable event.



In practice it does not seem clear how such statistical models should be applied and how they should be designed. Against this background we suggest that the IPSASB thinks of more detailed Implementation/Application Guidance especially for this area in the further course of its project. We therefore concur with the view that the accounting treatment of revenue transactions that do not contain performance obligations or stipulations (i.e. Category A transactions in the Consultation Paper, for example taxes and transfers) should be addressed in an updated version of IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

With regards to IFRS convergence we fully support the IPSASB in converging IPSASs with corresponding IFRSs. For the sake of consistency between the public and the private sector, we see merit in having a **Public Sector Performance Obligation Approach (PSPOA)** for transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15 (i.e. Category B in the Consultation Paper). However, we think that the implications of applying a PSPOA in the public sector would need to be further adapted to the public sector specifics. We would recommend that the IPSASB further explores grants with timing requirements as well as an "other economic phenomena-approach" (deferred inflow/deferred outflow-approach) in the context of the PSPOA.

Based on our current experiences with IFRS 15 in the public sector we would like to note that preparers will face considerable efforts in implementing IFRS 15. Especially the analysis of contracts can lead to significant efforts. However, this does not imply that we would reject IFRS 15 as a basis for Category C revenue transactions. We would rather recommend to consider the complexity of implementing IFRS 15 concepts in the public sector when determining the effective date of a future standard.

With regards to accounting for non-exchange expenses, we would support a mirror approach to the accounting for non-exchange revenues.

Please do not hesitate to contact Thomas Müller-Marqués Berger or Dr. Jens Heiling in case of any additional questions or remarks.

Sincerely,

Thomas Müller-Marqués Berger
Partner

ppa. Dr. Jens Heiling
Senior Manager



Annex – detailed responses

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- ▶ Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- ▶ Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

EY's response: We agree to replace IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction contracts* by a new IPSAS based on the performance obligation approach stipulated by IFRS 15, *Revenue from Contracts with Customers*. We are of the view that convergence of IPSAS with the corresponding IFRS is a strategic priority of the IPSASB.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

EY's response: We agree with IPSASB's PV 2. We concur with the view that the accounting treatment of revenue transactions that do not contain performance obligations or stipulations (i.e. Category A transactions in the Consultation Paper) should be addressed in an updated version of IPSAS 23. Concerning the update we refer to our cover letter above.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- Social contributions; and/or
- Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

EY's response: EY is of the view that additional guidance should be provided in an updated version of IPSAS 23 on social contributions and taxes where there is a separation between the timing of the taxable/social contribution event and the collection of taxes/social contributions. With regards to accounting for taxes in accordance with IPSAS 23 we would like to underline that in practice it does not seem clear how statistical models should be applied for the recognition of tax revenue and how they should be designed. Against this background we suggest that the IPSASB thinks of Implementation/Application Guidance in the further course of its project. Furthermore, we have experienced that there are also problems in terms of measurement of tax revenue, e.g. the



determination of the best estimate of tax revenue in the context of having sufficient staff capacity to perform such estimations. Given the fact that IFRS 15 changes the accounting for "uncollectability" of revenues (debiting revenue instead of recognizing an expense for doubtful debts), we would encourage the IPSASB to develop guidance on this matter.

With regards to tax expenditures and expenses, more detailed guidance would be helpful, as well as providing some practical and illustrative examples. The guidance provided in the standard is not sufficient and clear definitions, distinction as well as accounting guidance for both of them would be considered as valuable.

Also the current guidance in IPSAS 23 on accounting for social contributions is very limited. We would suggest that an updated IPSAS 23 should have a specific section on accounting for social contributions in the body of the Standard. In addition to that, similarly than for taxes, additional Implementation/Application Guidance on accounting for social contributions should be provided (e.g. on the use of statistical models).

In addition EY has encountered the following issues in accounting for transfers under IPSAS 23:

- 1) Transfers with performance obligations that are not a condition according to IPSAS 23. In practice we have experienced difficulties in fulfilling the matching principle (i.e. recognizing the expense in the same period as revenues). The same applies to donations of tangible assets. Applying the matching principle is not possible, if no condition is attached to the donated asset. In such a case, revenue recognized initially is not matching with the donated asset's depreciation within the receiving entity.
- 2) We also see a need for additional guidance for consolidation procedures regarding IPSAS 23 - from higher level to lower level entities. At present, the lack of guidance raises difficulties with consolidation regarding transfers. We would urge the IPSASB to provide a coherent approach;
- 3) We would encourage the IPSASB to provide further guidance on determining best estimates for subsequent measurement of transfers;
- 4) We also see a need for clear guidance and/or illustrative examples for the contractual/non-contractual distinction (in accordance with IPSAS 28 AG 20-21) that is also relevant for IPSAS 23 - for example, for the relationship between taxpayers and tax authorities for repaying tax debts in certain terms or court decisions regarding contractual arrangements.



Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the **Public Sector Performance Obligation Approach (PSPOA)**.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

EY's response: We support the PSPOA for transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15 (i.e. Category B in the Consultation Paper). For Category B transactions, we welcome an accounting approach based on the IFRS 15 five-step model (i.e. the performance obligation approach) but adequately adapted for the public sector environment. In this context, the IPSASB could reconsider the current conditions/restrictions-approach of IPSAS 23 as well as the accounting for transfers with timing restrictions.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 - Identify the binding arrangement (paragraphs 4.29 - 4.35);
- Step 2 - Identify the performance obligation (paragraphs 4.36 - 4.46);
- Step 3 - Determine the consideration (paragraphs 4.47 - 4.50);
- Step 4 - Allocate the consideration (paragraphs 4.51 - 4.54); and
- Step 5 - Recognize revenue (paragraphs 4.55 - 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

EY's response: For the sake of consistency between public and private sector accounting, we see merit in having a Public Sector Performance Obligation Approach (PSPOA) for transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15 (i.e. Category B in the Consultation Paper). However, we think that the implications of applying a PSPOA in the public sector would need to be further adapted to the public sector specifics. We would recommend that the IPSASB further explores grants with timing requirements as well as an "other economic phenomena-approach" (or a deferred inflow/deferred outflow-approach) in the context of the PSPOA.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- Option (b) - Require enhanced display/disclosure;
- Option (c) - Classify time requirements as a condition;
- Option (d) - Classify transfers with time requirements as other obligations;
- Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.



EY's response: We would favor option d). In line with the Conceptual Framework, received transfers with time requirements should be classified as other obligations. Alternatively, we would like to encourage the IPSASB to reconsider if time requirements could be regarded as a condition. In our view, time requirements always come together with specific performance obligations which could then be regarded as a condition.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

- a) Yes
- b) No

Please explain your reasons.

EY's response: Yes, we are of the view that option (d) in SMC 3 should be used in combination with Approach 1 Option (a). Additional guidance would in our view be helpful, especially for the distinction of exchange/non-exchange transactions as well as further guidance and/or illustrative examples for the contractual/non-contractual distinction (which could be exchange/non-exchange).

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons.

EY's response: Yes, we would encourage the IPSASB to develop more guidance on accounting for capital grants, especially for grants with timing requirements concerning the usage of the financed assets. Also providing a definition for capital grants would be considered as helpful in that context.

Specific Matter for Comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants?

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

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

EY's response:

As outlined before, we would encourage the IPSASB to develop clear guidance and definition of capital grants and criteria for recognition of them to identify them correctly. As outlined earlier, the Consultation Paper does in our view not discuss problems with regards to the matching principle and accounting for capital grants. We would encourage the IPSASB to discuss the possibility of accounting for other obligations/other resources or deferred inflows/deferred outflows respectively in that context.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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



EY's response:

As we believe that options within the IPSAS accounting framework should be reduced we would favor approach b). However, we see some practical difficulties in applying that approach and for some entities this might also be onerous. A possible approach could be to require to recognize only services-in-kind that are offered on an open and transparent market (i.e. professional services). As the recognition criteria for such services would have to be applied (e.g. reliable measurement), other services-in-kind than professional services should generally not be recognized.

As a consequence, it would be helpful to develop more specific guidance for the recognition and measurement of services-in-kind.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

EY's response: Yes, we agree with IPSASB's Preliminary View 5. With regards to the definition of universally accessible service and collective services we would like to mention that in our view this distinction would need to be further specified in an Exposure Draft.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

EY's response: Yes, we agree with IPSASB's Preliminary View 6.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

EY's response: As we favor a symmetrical approach for the accounting of non-exchange expenses, we agree with IPSASB's PV 7. As for revenues, we would encourage the IPSASB to reconsider the current conditions/restrictions-approach of IPSAS 23 as well as the accounting for transfers with timing restrictions. A deferred outflow/other resources-approach might be an appropriate way forward in our view.

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

EY's response: EY agrees in principle with IPSASB's view that initial measurement of non-contractual receivables should be at face value (legislated amount) of the transaction with any amount expected to



be uncollectible identified as an impairment. This approach supports accountability and is in the public interest. However, we suggest that the IPSASB provides further guidance on how to determine the face value less any amount to be uncollectible. In addition, we would encourage the IPSASB how this approach would relate to the application of statistical models to determine tax revenue according to IPSAS 23.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

EY's response: From a true and fair point of view we would clearly favor the fair value approach. However, we would underline the complexities and administrative burden involved in such an approach. In case that entities are using statistical models to determine tax revenue or revenues from social contributions, we would encourage the IPSASB to provide guidance on the practical aspects when using the fair value approach in the context of statistical models (or other approaches such as the tax assessment approach).

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

EY's response: For subsequent measurement of non-contractual payables, we would favor using the best estimate of the amount required to settle the present obligation at the reporting date, using discounted cash flows where appropriate (i.e. option (a)) as this approach would be in accordance with the Conceptual Framework and produces understandable information, as outlined in para. 7.42 of the CP.



Australasian Council of Auditors-General

19 January 2018

Ms Joanna Spencer
Manager, Standards Development and Technical Projects
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2

By email: JoannaSpencer@ipsasb.org

Dear Ms Spencer

Invitation to Comment – IPSASB Consultation Paper *Accounting for Revenue and Non-Exchange Expenses*

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the IPSASB Consultation Paper *Accounting for Revenue and Non-Exchange Expenses*. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports IPSASB's preference for the use of the public sector performance obligation approach (PSPOA) for revenue recognition. ACAG suggests that a mirror approach for recognising expenses may be difficult to implement.

ACAG recommends that the non-exchange expense project is undertaken concurrently with the social benefits project to ensure consistent liability recognition criteria.

ACAG appreciates the opportunity to comment and trust that you will find the attached comments useful.

Yours sincerely

Andrew Greaves
Chairman
ACAG Financial Reporting and Accounting Committee

ATTACHMENT

ACAG comments on IPSASB Consultation Paper *Accounting for Revenue and Non-Exchange Expenses*

Preliminary View 1

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15 *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give reasons.

ACAG agrees with Preliminary View 1.

Preliminary View 2

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give reasons

ACAG agrees with Preliminary View 2.

Specific Matter for Comment 1

Please provide details of the issue that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

ACAG is unable to comment, as Australia does not apply IPSAS.

Preliminary View 3

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give reasons

ACAG agrees with Preliminary View 3.

ACAG supports IPSASB in the adoption of a Public Sector Performance Obligation Approach (PSPOA). In practice, Category B transactions are not necessarily distinguishable from Category C transactions.

If the PSPOA were to be developed for Category B, it should be aligned with IFRS 15 to allow for Category C transactions to apply and achieve the same outcome as proposed in the Consultation Paper (CP). ACAG also raises issues with the exchange / non-exchange distinction under Specific Matter for Comment 4.

ACAG suggest that future IPSASB considerations for adapting IFRS 15 for the public sector should consider that ‘commercial substance’ will not necessarily mean that there is a ‘commercial return’. A common example of such arrangements is when goods or services are provided on a cost recovery basis or subject to affordability considerations. ACAG notes that the Australian Accounting Standards Board (AASB) has issued an amendment to AASB 15 *Revenue from Contracts with Customers* Appendix F (based on IFRS 15) via AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-profit Entities*. AASB 2016-8 may be useful in the development of PSPOA as it provides additional revenue related implementation guidance for the NFP sector.

Specific Matter for Comment 2

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement;

Step 2 – Identify the performance obligation;

Step 3 – Determine the consideration;

Step 4 – Allocate the consideration; and

Step 5 – Recognise revenue.

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

It is not clear from the Consultation Paper what ‘broadened’ entails. ACAG would consider that the five step approach in IFRS 15 is already broad, and at a level to accommodate industries across the private sector. On that basis, it is expected that the approach in IFRS 15 will be able to accommodate exchange transactions in the public sector. Rather than seeking to broaden IFRS 15, ACAG would suggest that the IFRS 15 principles be interpreted or applied for the public sector through guidance.

ACAG prefers the application of a combined model or approach for Categories B and C transactions. ACAG notes that the Australian Accounting Standards Board issued AASB 1058 *Income for Not-for-Profit Entities* in December 2016 and that this could be a useful reference for the IPSASB’s research deliberations in this area.

Step 1 Comments

ACAG support the view that identifying a binding agreement will require specific consideration and guidance for application in the public sector. In developing guidance of what is a binding arrangement, ACAG suggest that IPSASB review the approach taken by the AASB in adapting IFRS 15 for not-for-profit entities and broaden enforceability to include legal “or equivalent means” (refer

AASB 2016-8, Appendix F). The principle of “equivalent means” broadens the concept of enforceability to include legislative and administrative mechanisms that “oblige the entity to act in a particular way or be subject to consequence”. ACAG acknowledges that broadening the requirements in this manner may require some additional consideration as non-contractual mechanisms such as legislation, cabinet and ministerial decisions commonly exist and operate due to frameworks that exist / are maintained outside of the specific contract provisions. This approach will also present particular challenges for entities and auditors in assessing whether enforcement frameworks outside of contract provisions are applicable as to make a contract enforceable.

As IPSASB observe, identifying a customer (or the recipient of goods or services) is critical, and where there is no customer, it will be unlikely that there is a performance obligation. ACAG agrees with IPSASB’s view in paragraph 4.34, that in the public sector, identification of the customer is not always obvious.

ACAG notes that IPSASB refers to “binding” arrangement, but does not use the term binding in the discussion. ACAG suggests IPSASB consider the term “enforceable”, as used in IFRS 15.

ACAG notes that the IPSASB is proposing to permit the condition of the withdrawal of future funding as establishing enforceability (paragraph 4.32). ACAG does not agree with this proposal, and argues that this factor does not establish a performance obligation. ACAG therefore suggests the IPSASB consider this in more detail.

Step 2 Comments

ACAG support the view that identifying performance obligations will be a matter of judgement¹. ACAG suggests IPSASB review AASB 2016-8, Appendix F where detailed examples were provided to assist in making judgements on how to apply these principles in the not-for-profit sector.

The performance obligation requirement is far more complex for the public sector. There are key performance obligations where reliable measurement will be difficult. There are also incidental or implied performance obligations, which may or may not be measurable. For example, it is common for government agreements to approach performance obligations in the context of validating the delivery of government policy rather than identifying the goods or services to be delivered. While ACAG would encourage IPSASB to undertake further work in relation to implied obligations, ACAG acknowledges that the issues may be more easily understood and resolved if addressed once entities have had some experience with the new standard.

ACAG suggests removing references to stipulations from the discussion on performance obligations.

Step 3 Comments

ACAG is of the view that this step is a hurdle for the public sector. More work is needed to ascertain how consideration will be calculated, especially when the details are not sufficiently specific in the contract. IFRS 15 relies on fair value, which may be problematic for the public sector, especially for specialized assets. Typically, the value is not comparable to an equivalent in an active market.

¹ ACAG considers that the use of a combined approach for Categories B and C transactions would aid preparers in making consistent judgment.

Other research topics that could be further explored by the IPSASB include cash and non-cash considerations, impact of the government statistics requirements, and whole of government and general government sector financial reporting, which relate to the determination of consideration.

Step 4 Comments

ACAG considers that determining the standalone selling price in the public sector will be a particular challenge as IFRS 15 is written to consider each contract or customer individually. In the public sector a more macro perspective is applied, which considers public sector goods and services being delivered in a continuous flow. This collective objective or purpose, is not always related to individual contracts, customers, or individual products or on an individual component basis.

ACAG notes that standalone selling price may result in gains and losses that could impact on an entity's reporting of performance. IPSASB may want to seek additional comments on this issue.

Step 5 Comments

ACAG considers that it may be a challenge for public sector entities to reliably demonstrate when performance obligations are met and revenue recognised. However, ACAG see this as a positive development for users of financial information as it directs entities to report on the progress of outcomes and when obligations are satisfied, rather than on the spend.

In addition, ACAG suggests that consideration is given to exchange transactions that may have performance obligations which are not clearly enforceable or specifically defined. Where such obligations are not sufficiently specific, it is widely regarded that there are no performance obligations. This raises the question whether it is possible for exchange transactions to be without performance obligations.

ACAG notes that the Definitions (para. 2.2) for 'exchange transactions' and 'non-exchange transactions' are more aligned with the risks and rewards model applied in IAS 18 *Revenue*. The performance obligations approach does not hinge on exchanges or transfers of risks and rewards. As part of the IPSASB's research, ACAG recommends that the exchange and non-exchange categorisation may require additional work, or may be abandoned entirely if the PSPOA is adopted. ACAG notes that the diagram on page 27 of the Consultation Paper already highlights expected concerns with Category B transactions. In the public sector, ACAG notes that Category B transactions are likely to be a significant proportion of revenue transactions.

Specific Matter for Comment 3

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;
- (b) Option (c) – Classify time requirements as a condition;
- (c) Option (d) – Classify transfers with time requirements as other obligations; or
- (d) Option (e) – Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

ACAG does not support Approach 1. ACAG supports the IPSASB's development of the Public Sector Performance Obligation Approach (PSPOA) or Approach 2.

Specific Matter for Comment 4

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) — Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No

Please explain your reasons.

ACAG does not support Approach 1.

ACAG notes that the Public Sector Performance Obligation Approach (PSPOA), which ACAG supports, has some fundamental differences in reasoning to the current IPSAS 23. One fundamental difference is that the PSPOA is based on the reasoning that the grantor / provider of funds can be the customer, as it directs to whom the goods and services are to be provided. In particular, the grantor does not need to directly be the recipient of the goods and services. Therefore, if IPSAS 23 was retained in its current form, the exchange / non-exchange distinction would need to be updated to reflect this reasoning.

Preliminary View 4

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

ACAG agrees with Preliminary View 4.

Specific Matter for Comment 5

- (a) Has the IPSASB identified the main issues with capital grants?
If you think that there are other issues with capital grants, please identify them.
- (b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?
Please explain your issues and proposals

ACAG supports the application of the PSPOA to capital grants provided for the purpose of enabling an entity to acquire or construct a non-financial asset that will be controlled by the entity. ACAG is of the view that the liability has to be recognised until the performance obligations are satisfied. ACAG's view is that additional guidance would be useful given that grants can be varied in terms and conditions.

ACAG does not support the recognition of a deferred liability for the possible obligation to return the non-financial asset, if the non-financial asset ceases to be used for the specified purpose. It is ACAG's view that so long as the agreed purpose is being met then there is no present obligation; the notion of a deferred liability is not consistent with the *Conceptual Framework*.

Specific Matter for Comment 6

Do you consider that IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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

ACAG suggests the approach outlined in paragraph 5.9(a) is adopted whereby volunteer services are recognised when they meet the definition of an asset (or an expense, when the definition of an asset is not met) if the fair value of those services can be measured reliably and the services would have been purchased if they had not been donated. This is consistent with the approach taken by the AASB. Not-for-profit entities can elect to recognise volunteer services regardless of whether or not those services would have been purchased so long as the fair value of these services can be measured reliably.

ACAG consider that where volunteer goods or services are fundamental to enabling an entity to meet its objectives and the loss of these goods or services would represent a significant change in the operating environment, financial performance or position of the entity, this information is relevant to users and it should be disclosed.

While ACAG support the view that the benefits derived from information should not exceed the costs of obtaining that information (Paragraph 5.8), ACAG is of the view that this assessment is

primarily the responsibility of standard setters, not entities, as it is often the case that the benefits of disclosures are far broader than the immediate users of a single entities financial statements.

ACAG suggest that IPSASB consider that ‘do not require’ considerations be extended to include the encouragement of regulators to consider where additional disclosure would be relevant to users, without representing an unreasonable information burden.

ACAG notes that for some entities the decision to make volunteer disclosures in financial statements is not based entirely on financial considerations, for some entities it provides a basis for making a prominent and public acknowledgement of the important contribution made by volunteers.

ACAG notes that the test “the services would have been purchased if they had not been donated” is often difficult for volunteer time.

Preliminary View 5

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB’s Preliminary View 5? If not, please give reasons

ACAG suggests that further work needs to be undertaken in relation to this topic.

ACAG suggests that assumptions should not be made that recipients of grants, contributions and other transfers that provide universally accessible services have no performance obligations under their funding agreements. While these funding arrangements would be non-exchange under IPSAS 23, they may be equivalent to contracts under the PSPOA. ACAG suggests that arrangements that meet the criteria for the PSPOA, should be accounted for under the PSPOA, even if they relate to universally accessible services.

Preliminary View 6

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB’s Preliminary View 6? If not, please give reasons

ACAG agrees with Preliminary View 6. The expectation that services will be provided in the future does not represent an obligating event. While there will be a general expectation that government services will be provided in the future, actual service provision is subject to ongoing qualifying criteria which will change as government policy and public expectations change.

ACAG suggest clarity is provided for situations where governments have implied obligations to provide services—such as the education of children of school age.

ACAG recommends that the non-exchange expense project proceed with the social benefits project to ensure consistent liability recognition criteria.

ACAG also seeks clarification whether payments by grantors under social benefit bonds (also called social impact bonds) that relate to the future reduction for the need for universally accessible

services (e.g. initiatives to reduce diabetes and the need for hospitalisation and medical costs) are within the scope of universally accessible services or the social benefit carve-out.

Preliminary View 7

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give reasons

ACAG suggests that greater clarity is provided regarding the approach suggested by IPSASB. ACAG supports the Non-Exchange Expenses project considering the PSPOA, subject to the criteria of the conceptual framework being met.

ACAG does not necessarily agree with the mirror approach as an expected means of accounting in all circumstances, as a wholesale approach. Whilst mirror accounting may be the appropriate outcome in certain scenarios, this is not necessarily true in all instances. In particular, ACAG believes that consideration should be given to situations where the funds provided by the entity to external parties (i.e. the service provider) for goods and services to then be provided to other external parties (i.e. the public) represent assets of the reporting entity.

ACAG also considers that accruing by grantors for partially completed up-front grants to service providers is likely to be difficult to apply in practice.

Preliminary View 8

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give reasons

ACAG conceptually agrees with IPSASB Preliminary View 8. ACAG believes that non-contractual receivables should be recognised at the amount entitled to be collected under the relevant legislation, less any uncollectible amounts. ACAG notes that in practice there are often amounts that are uncollectible (e.g. incorrect or old addresses), or not pursued for mainly for social policy reasons.

Preliminary View 9

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give reasons

ACAG believes that the principles underpinning the cost approach—as outlined in paragraphs 7.33 and 7.34, would be appropriate given the nature of non-contractual receivables. As this approach effectively carries non-contractual receivables at the amount expected to be collected and it reflects the nature of these receivables. ACAG suggests where the time value of money would be relevant, the government should be discounting the amount. ACAG would suggest that the 'rate' issue is

readily resolved by reference to the rate used for other present value calculations e.g. employee benefits.

ACAG also recommends that provisions or guidance be included in relation to the assessment of valuation for individual receivables versus a portfolio.

Specific Matter for Comment 7
<p>For subsequent measurement of non-contractual payable do you support:</p> <p>(a) Cost of Fulfilment Approach;</p> <p>(b) Amortized Cost Approach;</p> <p>(c) Hybrid Approach; or</p> <p>(d) IPSAS 19 requirements.</p> <p>Please explain your reasons.</p>

ACAG supports Approach 1 Cost of Fulfilment Approach on the basis that it is consistent with the Conceptual Framework and is therefore relatively straightforward for both preparers and users to understand. This approach is also embedded in other standards and therefore it is an approach that provides for internal consistency and is familiar to both preparers and users.

Additional matters IPSASB may want to consider that are not currently covered in the consultation paper:

1. How to account for goods or services where the value of the goods or services is significantly more or less than the consideration paid or received?
2. How to account for variable inputs under PSPOA e.g. obligation is to provide goods or services to pensioners subject to a means test?
3. How to account for arrangements where service delivery obligations are also subject to payment conditions that are not performance obligations to customers? So for example, there is a service delivery obligation agreement whereby the government will pay entity A to provide specified services to customers, however payment to entity A is subject to entity A meeting certain performance standards which will be assessed by government.



EUROPEAN COMMISSION
Budget

Budget execution (general budget and EDF)
Accounting

Brussels,
BUDG.DGA.C02/MZ

Mr Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board (IPSASB)

Comment letter on Consultation Paper '*Accounting on Revenue and Non-Exchange Expenses*'

Dear Mr Carruthers,

We welcome the opportunity to comment on the above mentioned Consultation Paper '*Accounting on Revenue and Non-Exchange Expenses*' ('CP'). The following comments are made in my capacity as Accounting Officer of the European Commission responsible for, amongst other tasks, the preparation of the consolidated annual accounts of the European Union, which comprise more than 50 European Agencies, Institutions and other European Bodies with an annual budget of more than EUR 140 billion.¹

We would like to thank the International Public Sector Accounting Standard Board (the 'IPSASB') for this opportunity to contribute to the due process and we are pleased to provide you with our comments with the aim of improving the transparency, relevance and comparability of the financial statements across jurisdictions.

We consider that the new IPSAS guidance on a revenues and non-exchange expenses will be very important for the public sector, as it is related to the core of the public sector activities and have a material impact on the financial statements of the public sector entities. In particular, we appreciate the IPSASB work with regard to the accounting for non-exchange expenses, for which so far no guidance was available.

The majority of the revenues of the European Commission (the 'Commission') are considered non-exchange revenues as they relate to the contributions from Member States to the EU Budget. Similarly, grants and other transfers provided to beneficiaries constitute the most significant item of EU expenditure, allowing the EU to pursue its objectives. Therefore, the Commission has developed its own accounting rules on the treatment of grants.

Regarding the proposals put forward in the CP, we agree with the IPSASB's approach to converge public sector accounting standards for exchange revenues with the

¹ For the sake of clarity, the views presented in this comment letter do not represent the views of the EU Member States, or the views of the European Public Sector Accounting Standards ('EPSAS') Task Force, and are without prejudice to future decisions which may be taken in the context of the EPSAS project.

model used in the private sector (IFRS Standards) while adding public sector specific guidance and illustrative examples. We are also supportive to the extension of the 'performance obligation approach' to the public sector specific transactions which include such performance obligations. Finally, with regard to the treatment of public sector expenditure, we favour the 'reversed public-sector performance obligation approach'.

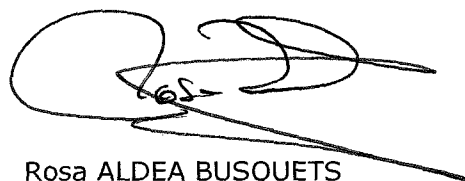
We consider that these proposals would allow for better reflection in the financial statements of the public sector entities of their activities. In particular, the stage of implementation of the performance obligations by public sector entities on one side (revenues), and the progress of the activities financed by the public sector entity on the other side (expenses), provides very relevant information for the users of financial statements. Due to the fact that resources are limited, we consider that there is an increased need to look closer at performance and achievement of results expected from the actions financed by the public sector. This is of high importance for strong public financial management. As such, we consider that the proposed accounting treatment of the public-sector expenses and revenues would increase usefulness of the financial statements by providing valuable input both for the decision making processes (allocation of the budget) and for the accountability in the public sector (effectiveness of the use of resources).

While being overall supportive to the IPSASB preliminary views on the above-mentioned subjects, we believe that it is very important to clearly define which public sector transactions would fall under such an approach, as a very narrow – close to private sector – classification, could restrict the transactions in the scope and as such limit the usefulness and the advantages of the proposed treatments. Therefore we appreciate the IPSASB proposals in the CP to extend the guidance of IFRS 15 '*Revenue from contracts with customers*' to activities common to the public sector.

Please find our detailed responses to the questions in the CP in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact me. In particular, the Commission is available to provide some examples of different types of our grants as an input for further IPSASB work on the new/updated standards.

Yours sincerely,



Rosa ALDEA BUSQUETS

cc: Derek Dunphy, Martin Koehler, Bruno Gomes, Mihaela Bularca, Magdalena Zogala (DG.BUDG.C2), Alexandre Makaronidis (ESTAT.C.TF.EPSAS)

Appendix – Response to the questions raised in the CP

Question (Preliminary view 1) – Replace current IPSAS dealing with revenue based on the requirements of IFRS 15 (Category C)

The IPSASB considers that it is appropriate to replace IPSAS 9 Revenue from Exchange Transactions, and IPSAS 11 Construction Contracts with an IPSAS primarily based on IFRS 15 Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and*
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.*

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

Response

We agree with the proposal to align the IPSAS accounting treatment with IFRS 15 requirements for similar transactions within the public sector, which involve delivery of goods and services under contracts with customers. We also agree that there is a need for some limited modifications to make the IFRS 15's five-step model applicable in the public sector. In addition, it would be useful to consider the experience already gained by the private sector in the implementation, in order to possibly include additional guidance or clarifications in the future IPSAS standard.

Question (Preliminary view 2) – Recognition of revenue for transactions that do not contain any performance obligations or stipulations (Category A)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Response

We agree that the non-exchange revenue transactions, which do not include any performance obligation nor stipulations, should be out of scope of the performance obligation approach, as their accounting under such an approach would not be relevant. Therefore we support the proposal to include guidance for these transactions under an updated IPSAS 23. We understand that the general rules would then stay unchanged, with additional guidance potentially to be provided in the areas identified as causing problems in implementation.

Question (Specific Matter for Comment 1) – Issues encountered in applying IPSAS 23

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or*
- (b) Taxes with long collection periods.*

Response

The EC has not identified any specific issue in applying IPSAS 23, besides those already identified by the IPSASB in the CP.

Question (Preliminary View 3) – Accounting for Category B transactions

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

Response

We support the IPSASB preliminary view 3 ('PV') that the transactions in category B should be accounted for using the Public Sector Performance Obligation Approach ('PSPOA'). As indicated in our comment letter, we considered it relevant to link the recognition of revenue by the public sector entity to the performance (fulfilment) of the obligations related to that revenue. We believe that it will provide useful information for the users regarding the use of resources provided and - in longer terms - it should positively impact the public sector management in general.

We also support IPSASB approach that for transactions, which do not have all features of commercial transactions in the private sector, important public sector adaptations would be needed, as further discussed under the Specific Matter for Comment ('SMC') 2. In particular, it would be very important to consider clarifying the type of transactions that should be considered relevant for the proposed treatment. If the criteria would be very restrictive, then the applicability of the new approach in the public sector would be minimal and the costs of implementation of the new approach (development of the new standard, review of all contracts) may outweigh benefits.

Regarding Category B, we understand that there may still be situations of revenue transactions where there is a condition linked to the revenue, but the transaction does not qualify for the PSPOA. In our current understanding of the IPSASB proposal, such transactions would fall under the amended IPSAS 23, and (also depending on final adaptations) would still be accounted for as liabilities until the conditions are met. As this will then lead to a similar accounting treatment to the performance obligation approach, we would suggest considering whether each contract with conditions does not implicitly include performance obligation and as such could qualify for the PSPOA. Furthermore, we believe that in order to avoid inconsistencies, it should be clarified in the standard that in case there is both a performance obligation and a stipulation in the binding arrangement, the performance obligation approach prevails.

Question (Specific Matter for Comment 2) – Proposal to broadening the requirements in the IFRS 15 five-step approach for the public sector

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29 – 4.35);

Step 2 – Identify the performance obligation (paragraph 4.36 – 4.46);

Step 3 – Determine the consideration (paragraphs 4.47 – 4.50)

Step 4 – Allocate the consideration (paragraph 4.51 – 4.54); and

Step 5 – Recognise revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-step model could be broadened?

If not, please explain your reasons.

Response

We fully agree that the IFRS 15 approach would need to be broadened / adapted to be applicable to the transactions with performance obligation which however do not have all features of a commercial transaction specific for the private sector. As raised in our reply to the PV2, it will be crucial for the new standard to define which transactions would be in the scope. In this context we would like to raise the following points:

Enforceability - We agree with the IPSASB approach taken in point 4.32 of the CP to extend the enforceability to different ways the transferor of resources can take remedies in the event of non-fulfilment of performance obligation. We believe that it should be considered for the future IPSAS to which extend the funds providers would need to be able to enforce performance of the contract i.e. fulfilment of the agreed action. In many cases, even if the performance of the action is contractually agreed (as an obligation of the beneficiary), the enforcement rights of the funds provider can - in practice - be limited to the recovery of funds provided in advance or to non-providing of subsequent financing. In our view such condition should be considered as sufficient for the performance obligation approach (in line with the 'Multi-research grant' example in the CP), in order not to limit the transactions in the scope. Otherwise there could be many transactions, which include conditions, but which would be out of scope due to lack of enforceability of the performance of the service (action). In the Commission context, the grants include an obligation of the resource recipient to perform an agreed action or to implement the work programme (in the Commission's grant agreements it is stated that the beneficiary 'agrees to implement the action'), and the beneficiaries of the funds are required to report on the progress. The Commission has right to limit the funding (or recover the funds already provided) in case the action stipulated in the grant agreement has not been implemented properly (i.e. it has not been implemented or has been implemented poorly, partially or late).

Identification of a customer – We agree with the IPSASB view in point 4.34 of the CP that the three party agreements are common in the public sector and that the PSPOA should be applicable in cases when the fund provider is not a direct recipient of the goods/services delivered under the action. However, the action implemented by the fund recipient provides benefits to the fund provider in terms of meeting of its policy objectives. Furthermore, we notice that in many cases identification of the final customer would not be possible, as this could be an unidentified group of people or general public (e.g. the outcome of a grant given for the research is expected to benefit the general public, as it supports innovation and development of the economy).

Performance obligation – With reference to point 4.45 of the CP, we would suggest to consider if the requirement to use the revenues for the defined set of activities of a public sector entity could be considered as a performance obligation in cases where other criteria would be met (e.g. enforceability). This could be viewed from the perspective discussed under point 4.34 of the CP that the activities of the fund recipient are financed by the fund provider because they contribute to the funds provider's objectives, regardless of the fact that the direct transfer of distinct services to beneficiaries might not be clearly identifiable. An example could be an operational grant provided by the Commission for the implementation of an agreed specified work programme. Implementation of the work programme could be considered as provision of service to the society. It could be further considered,

whether implementation of the budget should be seen as performance obligation of public sector entities, given the fact that the budget usually defines the areas for which money should be spent (i.e. it broadly defines services to be provided to certain groups of the society).

Allocation of consideration – We support the IPSASB view presented in the point 4.54 of the CP that in the public sector context the focus should rather be on ability to determine the cost of fulfilling of each performance obligation rather than on selling price. In the Commission context, the grants are often provided on the basis of costs incurred/to be incurred for the agreed action.

Question (Specific Matter for Comment 3) – Whether is appropriate to consider *time requirement* within IPSAS 23

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;*
- (b) Option (c) – Classify time requirements as a condition;*
- (c) Option (d) – Classify transfers with time requirements as other obligations; or*
- (d) Option (e) – Recognise transfers with time requirements in net assets/equity and recycle through the statement of financial performance.*

Please explain your reasons.

Response

In our view, if there is no condition neither a performance obligation linked to the revenues received by an entity (i.e. the fund provider has no means to enforce performance or to recover the money) such revenue should be recognised in the statement of financial performance when received or receivable. We believe that in such case there is no liability linked to the revenues received and as such we do not support option c neither option d. The issue of the link to the future periods (the revenue is supposed to be spent in the next periods) could be solved by an appropriate disclosure (note to the financial statements) as proposed under **option (b)**. We would however not support a different presentation in the statement of financial performance – disaggregation of revenue – as in our view it could create confusion and would impair understandability of the financial statements. We are also not supportive for option e, as it would increase complexity and may be difficult to understand for the readers of the financial statements. In general, we believe that the allocation of revenues between the P&L and deferrals could be too discretionary in cases when there is no legal obligation (no enforceability, no performance obligation) and this could impact reliability. We suppose that there could be cases of quicker or slower implementation comparing to the provisions of the transfer agreements.

However, in our view, implementation of the PSOAP should resolve the problem of the grants with time requirements in many cases. As indicated in our previous replies, we would suggest reflecting on whether budget implementation and operating grants fulfilment of a work program under operating grants could be considered as performance obligations. In both cases revenues would be linked to the periods in which the actions are to be implemented, which could help to further solve the issue.

Question (Specific Matter for Comment 4) – whether IPSASB should provide more guidance on the distinction of exchange and non-exchange transactions

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Response

While we consider that provision of additional guidance for the split between exchange-non exchange transactions could be useful, we agree with the IPSASB that it needs to stay principle-based. Too prescriptive definitions may reduce relevance of the classification in some cases.

However we do not consider that the option (b) – as favoured by us for the contracts with sole time requirements - would need to be used in combination with extended guidance of exchange vs non-exchange classification. We believe that in cases the PSPOA would be followed, and depending on the scope of the transaction to which it would apply (see our previous comments) the exchange-non exchange split would loose on relevance. In particular, for the issue of time requirements, we would consider more useful to consider whether such contracts include or not a performance obligation.

Question (Preliminary View 4) – Accounting treatment of capital grants

The IPSASB considers that accounting for capital grants should be explicitly addresses within IPSAS.

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

Response

We agree with the IPSAB proposal to explicitly address accounting for capital grants in the IPSAS. This is a very common transaction in the public sector and clarifying the accounting treatment would limit diversity in practice and increase comparability of financial statements.

Question (Specific Matter for Comment 5) – Issues and/or proposals for the accounting of capital grants

(a) Has the IPSASB identified the main issues with capital grants? If you think that there are other issues with capital grants, please identify them.

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider? Please explain your issues and proposals.

Response

For capital grants, we have not encountered other issues than the ones already identified by the IPSASB. Neither a specific accounting policy has been developed under the EU Accounting Rules for revenue recognition related to the capital grants, since the Commission is in such cases rather a fund provider than a beneficiary. For the expense side, we apply the same accounting policy as for other grants, i.e. we

recognise expenses on the basis of eligible costs incurred by the beneficiaries for the action. This is considered as a good proxy for the stage of completion, as our grants are limited to the cost of implementation. In our view the stage of completion can be assimilated with the fulfilment of performance obligation by the beneficiary.

Question (Specific Matter for Comment 6) – Accounting treatment of services in-kind

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or*
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or*
- (c) An alternative approach.*

Please explain your reasons. If you favour on alternative approach please identify that approach and explain it.

Response

We consider that services-in kind should be accounted for in the financial statements of an entity if they are material for its operations and therefore we support the proposal under **option b**. This would allow for better reflection of costs of services provided by that public sector entity. In some cases reception of services in kind may be crucial for the entity to operate and to be able to fulfil its mission.

For example, in the EU context, we set up several joint undertakings with the private sector. While the Commission contributes to the operations of those entities with financial contribution, the industry counterpart provides its part of the agreed contribution mainly in-kind. As such, the 'in-kind' contributions of industry are the key feature of that arrangement, and are necessary for the operating activities of the entity.

We also agree with the IPSASB that it might not always be possible to reliably estimate the amounts of in-kind contributions. In such cases, the recognition criteria would not be met and the revenue should not be accounted for. Furthermore, there could be high cost related to the measurement of in-kind contributions. However, if the recognition of in-kind contributions will be applied where the in-kind contributions are significant for the entity, the benefits should outweigh the cost. Indeed under IPSAS the proposed accounting treatment would be only mandatory to be applied for material cases.

Question (Preliminary View 5) – Accounting treatment for universally accessible services and collective services

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Response

Yes, we agree.

Question (Preliminary View 6) – Accounting treatment for universally accessible services and collective services

The IPSASB is of the view that because there is no obligation event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Response

Yes, we agree.

Question (Preliminary View 7) – Accounting treatment for grants, contributions and other transfer that contain performance obligations or stipulations

The IPSASB is of the view that for grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

Response

We support the IPSASB view to account for the expense transactions where there is a performance obligation or stipulation under the **reversed PSPOA**. As explained in our comment letter, this should allow for better reflection of the performance of the public sector entity in terms of implementation of its working programme and achievement of its objectives, which is very relevant information for the users of financial statements. We also consider appropriate that the accounting treatment on revenue and expense side of the same transaction would be aligned, i.e. the asset/liability vs revenue/expense would be recognised to the same extent in the financial statements of both entities.

We also agree on the application of the reversed PSPOA to the transactions with stipulations. In our view, in most cases a transaction, which has stipulations, should also be considered as having a performance obligation. As indicated in our replies to the PV 3 and SMC 2, it will be important to further reflect on this aspect to ensure that wide scope of transaction would qualify for the proposed approach. We understand that under the current proposal in the CP, transactions not qualifying for the reversed PSPOA (as not all criteria for the PSPOA would be met) would then be accounted for using the 'extended obligating event approach'.

In the EU context, the grants provided by the Commission in many cases foresee a commitment of the beneficiary to implement an agreed action and the beneficiary needs to provide the reports on the progress of implementation. Those reports have to be accepted by responsible operational staff before next payments or acceptance of costs. As such we consider that there is a performance obligation linked to the grant. However we also include a condition in the grant agreements, i.e. the funds which are provided as an advance-payment to the beneficiaries (so called 'pre-financing') are contractually property of the EU as long as the eligible expenses are not incurred by the beneficiary and accepted by the Commission. Until that moment the Commission can recover the amounts. The costs incurred by the beneficiaries have to be eligible (i.e. incurred in the direct linked to the agreed action), but also the action has to be implemented (see also our comment to the SMC 2).

As already indicated in our comments to the SMC 3, we would propose to consider whether the operating grants include a performance obligation. In our case, operating grants provide financial support for the functioning of certain bodies which 'are pursuing an aim of general EU interest or which have an objective forming part of, and supporting, an EU policy'. The grants are linked to the 'work programme', which has to be detailed enough to allow the Commission to monitor its implementation. As such, operating grants are not provided for the 'mere existence' of the entity but for the fulfilment of the work programme. However, as discussed under our comments to the SMC3, the identification of 'customers', i.e. recipients of the services may not always be straightforward. It might be more relevant to assume that the service is provided to the fund provider, as it helps to pursue its objectives.

Similar issue could be noted for the action grants, which are provided to beneficiaries. While direct benefits from the grant belong to the beneficiary, the grant is provided to pursue the EU policy objectives. Although the action is clearly defined in the agreement, and the Commission agrees only to cover costs incurred with the direct relation to the action ('eligible costs'), it might be difficult to identify services to be provided by the fund recipients to the fund provider or to the third parties. Therefore, if such grants would be to qualify under the reversed PSPOA, the definition of the customer or/and 'distinct goods and services' would need to be adapted, as noted by the IPSASB in the CP.

We support the public-sector modifications proposed by the IPSASB, and in particular the link to cost of fulfilment rather than to selling price. In the Commission grants, the expenses are usually related to the cost of an action incurred by the beneficiaries. The expenses are recognised in the accounts on the basis of a declaration of the costs incurred, after checking their eligibility, (i.e. link to the action) and verification of the progress of the action. If - based on the progress/implementation report - it is considered that the action is implemented as expected; the costs incurred are assumed to be the proxy of the stage of completion and constitute fulfilment of the related performance obligation.

In this context we acknowledge that the measurement of the performance obligation could be judgemental, and will require estimates. As the progress reports requested by the Commission do not include the percentage of completion, an estimation of the expenses to be recognised would be necessary.

Question (Preliminary View 8) – Measurement at initial recognition of non-contractual receivables

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Response

We support the IPSAB proposal for the recognition of the non-contractual receivables at face value, with the non-collectible part presented as impairment as stated in the **PV 8**. In our view this proposal will better reflect substance of the transaction and useful information will be provided to the readers of the financial statements, i.e. the amount legally due/owed by the entity (face value) from the non-exchange transaction and separately the amount considered as uncollectible. We believe that such treatment will positively impact the public financial management and increase accountability for the public sector resources.

Question (Preliminary View 9) – Subsequent measurement of non-contractual receivables

The Board considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

Response

In consistency with our replies to PV8, we would favour **approach C**, i.e. the cost approach (face value minus impairment). This would provide relevant and understandable information for the readers of the financial statements and would be easier to implement. It would reduce the uncertainty related to the timing of the cash flows and discount rates. In our view, in the public sector context, reflection of the cost of financing in the measurement of the non-exchange receivables is not that relevant. The fact that some non-contractual receivables can be paid in the future periods may stem from the legislation and payment delay can already be taken into account in defining of face values by the legislator. As such changes of the value only due to the passage of time may not provide relevant information. Instead, it seems more appropriate to accrue interests in cases when they are contractually due, as it would be the case under approach C.

Question (Specific Matter for Comment 7) – Subsequent measurement of non-contractual payables

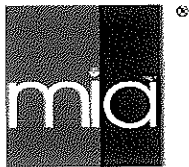
For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfilment Approach;*
- (b) Amortised Cost Approach;*
- (c) Hybrid Approach; or*
- (d) IPSAS 19 requirements?*

Please explain your reasons.

Response

We support **Approach (a)** i.e. cost of fulfilment approach. As indicated in our replies to the PV 8 and PV 9 we consider that the cost of financing has less importance, in particular as the non-contractual payables in private sector are usually short-term. Therefore we do not consider relevant to apply the effective interest rate method to such payables (as foreseen under the approaches b and c). We also consider that this approach would be more straightforward to apply and will provide understandable information.



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

31 January 2018

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

Dear John,

CONSULTATION PAPER ON ACCOUNTING FOR REVENUE AND NON-EXCHANGE EXPENSES

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Consultation Paper on *Accounting for Revenue and Non-exchange Expenses* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli at +603 2722 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer

Part I: Preliminary Views**Preliminary View 1**

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- b) Arise from a contract (or equivalent binding agreement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

We agree with the IPSASB's preliminary view. We also wish to recommend that the IPSASB to carry out a cost-benefit analysis on the implementation of future standards on this matter. At the moment, as noted by the IPSASB in paragraph 4.64 of the CP, it is not possible to estimate such implementation costs.

Preliminary View 2

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

We agree with the IPSASB's Preliminary View 2.

Preliminary View 3:

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

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

We would like to see the detailed proposal on the accounting of Category B transactions using the PSPOA before we can provide our comments on the matter.

Preliminary View 4

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

We agree with the IPSASB's Preliminary View 4.

Preliminary View 5

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

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

We agree with the IPSASB's Preliminary View 5.

Preliminary View 6

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

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

We agree with the IPSASB's Preliminary View 6.

Preliminary View 7

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations, they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

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

We would like to see the detailed proposal on the accounting of Category B transactions using the PSPOA before we can provide our comments on the matter.

Preliminary View 8

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transactions with any amount expected to be uncollectible identified as an impairment.

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

We do not agree with the IPSASB's Preliminary View 8 as it is inconsistent with relevant legislation pertaining to initial recognition of non-contractual receivables which is at face value. We believe that any amount expected to be uncollectible to be identified as impairment for the subsequent measurement. See our response on Preliminary View 9 below.

Preliminary View 9

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

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

Given that relevant legislation normally requires the amount to be at face value, we do not agree with the IPSASB's Preliminary View 9. We believe that the appropriate measurement should be cost less impairment.

Part II: Specific Matters for Comment**Specific Matter for Comment 1:**

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or**
- (b) Taxes with long collection periods.**

If you believe that there are other areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the guidance you believe is needed.

Malaysia is in the midst of implementing accrual-based standards and accordingly, we have yet to identify the issues in applying IPSAS 23 on social contributions and taxes with long collection periods.

Specific Matter for Comment 2

The IPSASB has proposed to broaden the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 – Identify the binding arrangement
- Step 2 – Identify the performance obligation
- Step 3 – Determine the consideration
- Step 4 – Allocate the consideration
- Step 5 – Recognise revenue

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not please give your reasons.

We agree with the proposal of broadening the IFRS 15 five-steps to facilitate the performance obligation approach for Category B transactions subject to our comments in Preliminary View 3.

Specific Matter for Comment 3

If the IPSASB were to implement Approach 1 and update IPSAS 23 for category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulation):

- (a) Option (b) – Require enhanced display/disclosure;
- (b) Option (c) – Classify time requirements as a condition;
- (c) Option (d) – Classify transfers with time requirements as other obligations; or
- (d) Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

We prefer Option (d) i.e. classify transfers with time requirements as other obligations for the reason stated in paragraph 4.23 of the CP.

Specific Matter for Comment 4

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No

Provide your reasons.

We agree that it should be used in combination with Approach 1 Option (a) as additional guidance will provide clarity in making the distinction between exchange and non-exchange transactions.

Specific Matter for Comment 5

- (a) Has the IPSASB identified the main issues with capital grants?**
(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

- (a) We believe that the IPSASB has identified the main issues with capital grants.
- (b) In relation to accounting for capital grants, we recommend that the IPSASB consider the accounting treatment on grant that is based on the International Financial Reporting Standard for Small and Medium Entities (IFRS for SMEs). Paragraph 24.4 of IFRS for SMEs requires grants to be recognised as follows:
- a grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable;
 - a grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met; and
 - grants received before the revenue recognition criteria are satisfied are recognised as a liability.

This will result in a simplified approach for treating capital grants and avoid the difficulty to determine whether a stipulation in respect of a grant is a condition or a restriction.

In addition, in paragraph 5.5 of the CP, the IPSASB stated that the accounting treatment that is based on IAS 20 *Government Grants and Disclosure of Government Assistance*, is inconsistent with the IPSASB Conceptual Framework. We recommend that this paragraph be expanded to explain the reason for such inconsistency.

Specific Matter for Comment 6

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or**
(b) Modify requirements to require services in-kind that meet the definition of an asset, to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
(c) An alternative approach.

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

We recommend that the IPSASB to retain the existing requirements for services in-kind as we are not aware of any significant issues with such existing requirements.

Specific Matter for Comment 7

For subsequent measurement of non-contractual payables do you support:

- (a) cost of fulfilment approach;**
- (b) amortised cost approach;**
- (c) hybrid approach; or**
- (d) IPSAS 19 requirements?**

Please explain your reasons.

We support applying the requirements of IPSAS 19 to account for non-contractual payables as it is straightforward to apply as well as it is consistent with the existing accounting treatment of such payables.

January 31, 2018

Technical Director
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International Federation of Accountants
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Toronto, ON M5V 3H2 Canada

Re: Consultation Paper "Accounting for Revenue and Non-Exchange Expenses"

Thank you for the opportunity to comment on the proposals in the Consultation Paper. Accounting for Revenue and Non-Exchange Expenses in the Public Sector is an important and difficult topic.

The Canadian Public Sector Accounting Board (PSAB) currently has a project underway to develop an overarching, principles based standard for revenue as well. Our project, however, does not address revenue arising from Government Transfers or Taxes. These topics are specifically addressed in the CPA Canada Public Sector Accounting Handbook, Section PS 3410, *Government Transfers* and Section PS 3510, *Tax Revenue*. Section PS 3510 is substantially based on the tax revenue provisions in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Responses to the Specific Matters for Comment are set out in the attached document "Appendix A – Accounting for Revenue and Non-Exchange Expenses". As well, we wish to draw the attention of the IPSASB to the following issues:

- **Multiple standards based on a performance obligation approach may cause confusion.**
The proposals seem to imply that the result would be two separate IPSAS based on a performance obligation approach and a revised IPSAS 23. We understand that IPSASB has an objective to converge standards with International Financial Reporting Standards where appropriate. However, we are concerned that two IPSAS, both based on a performance obligation approach, may create confusion and unnecessary application issues. We encourage IPSASB to consider whether one IPSAS could be developed, based on a public sector performance obligation approach that would be based on IFRS 15. This would need to be robust enough to address both Category C and B transactions that contain performance obligations or stipulations.
- **Accounting for Non-Exchange Expenses Must Reference the Asset Definition.** We are concerned that the symmetrical accounting forced through the use of a performance obligation approach for non-exchange expenses does not adequately consider whether the asset definition

is met. We believe that the asset definition must be the primary reference for determining whether an asset is recognized by a transferor in relation to a transfer provided by a public sector entity. We do not agree with the assertion in paragraph 6.21 that indicates that a transferor has control of the transferred resources until the recipient breaches the condition(s) related to the transfer. In our view the transfer and the breach of the condition(s) are separate events, with the breach being a possible future event. The transfer of funding to an external party means that the transferor no longer controls those funds. The transferor would only recognize a receivable for the portion of the transferred funds for which the condition has not been met when it has evidence that the breach has occurred. We provide more detail on this issue in Appendix A.

- **Measurement.** Given the current IPSASB project underway regarding Measurement it might be worthwhile to wait and see the results of that project before proceeding with developing measurement guidance for non-contractual receivables and non-contractual payables.

Please note that this letter and the comments in Appendices A and B represent the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB).

Thank you again for the opportunity to provide you with input on this Consultation Paper. We hope you find our comments helpful.

Sincerely,

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Principal, Public Sector Accounting

Accounting for Revenue and Non-Exchange Expenses

Response to Consultation Paper

Issued August 2017 with comments due January 15, 2018

Appendix A

Responses to Preliminary Views and Specific Matters for Comment

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on IFRS 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

PSAB Staff Response

PSAB staff agree that a new revenue IPSAS based on IFRS 15, *Revenue from Contracts with Customers* is appropriate.

PSAB staff understand the convergence strategy, where appropriate, of the IPSASB and agree that both IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 11, *Construction Contracts*, could be replaced with an IPSAS primarily drawn from IFRS 15, *Revenue from Contracts with Customers* for Category C transactions.

However, as noted above under general comments, the idea of developing two IPSASs based on a performance obligation approach, one for Category C transactions and one for Category B transactions, may be problematic for the following reasons:

- Application by Stakeholders May Not be Improved:
 - ✓ The criteria to determine which transactions would fall under the appropriate IPSAS, both based on performance obligations may be confusing and result in similar frustrations currently experienced with trying to determine whether a transaction is exchange or non-exchange. Even if applying the 'rules of the road' approach to developing a new IPSAS based on IFRS 15 will require some modifications that are also needed to address the Category B transactions, it may be worth it to reduce potential confusion.

For example, as noted in Preliminary View 1, the IPSAS developed to address Category C transactions will include transactions that arise from contracts (or equivalent binding arrangements) with a customer that establish performance obligations. The proposed expansion in the Consultation Paper to include transactions that arise from 'equivalent binding arrangements' in addition to contracts may already broaden the scope of transactions captured under such a proposal from that considered in IFRS 15 and may then include some from Category B transactions. The primary focus for both Categories B and C would be on determining whether a performance obligation is present or not.

- ✓ Also, the last point to distinguish Category C transactions from other transactions is that the transaction be on 'commercial terms'. This phrase is private sector oriented and can be confusing as to what is really meant by 'commercial terms' in the public sector. As noted in IFRS 15, paragraph 9 (d), commercial substance is when the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract.

Chapter 4 paragraph 4.47 describes the term 'commercial substance' as two characteristics assumed in a contract to deliver promised goods or services to a customer:

- a) The amount of expected revenue will change as a result of changes to the nature, cost, value or volume of the promised goods and services to be delivered; and
- b) The amount of expected revenues reflects the amount to which the entity expects to be entitled in exchange for those goods or services.

Using this term in the public sector may create similar frustrations to those experienced currently in trying to determine whether a transaction is exchange or non-exchange. Under the Consultation Paper proposals, an entity will need to evaluate its transactions as to whether they contain a performance obligation or stipulation, and then whether it has commercial substance or not to determine the appropriate IPSAS to apply.

- Sufficiently Differentiating Performance Obligations from Stipulations: It was noted in the diagram illustrating the categorization of transactions (page 27) that the characteristic of Category C transactions was enforceable agreements with performance obligations to transfer goods or services to customers on commercial terms. This is compared to Category B transactions that are enforceable agreements with performance obligations or stipulations. This would imply that these Category C transactions do not contain stipulations. If this is correct, the guidance will need to be clear as to how to differentiate a performance obligation from a stipulation.
- Sufficiently Differentiating How Performance Obligations are Fulfilled: Another distinguishing characteristic between Category B and C transactions is that Category C transactions relate to the transfer of goods or services to customers. Category B transactions relate to the use or consumption of resources in a particular way. This wording may lead to some differences in interpretation and will need to be clearly explained. A customer is control of the goods or services when they have the ability to direct the use of and benefit from the good or service. Therefore, the distinction between Category B and C needs to be clear why or how they differ.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

PSAB Staff Response

Agree that guidance will be needed for transactions with no performance obligations or stipulations. However, the Consultation Paper did not elaborate on how the IPSAS 23 would be revised to address Category A transactions. Assuming a performance obligations approach is supported and developed for Category B and C transactions, the revised IPSAS 23 will need to revisit its scope and definitions to ensure it is addressing only those transactions that do not contain performance obligations or stipulations. The definition or references to non-exchange transactions would need to be removed. Such changes would help ensure the initial question for all revenue transactions is whether performance obligations exist or not.

On the other hand, if there is continued support for the non-exchange and exchange distinction, with the necessary clarifications the revised IPSAS 23 could be amended to address the issues currently raised with its application.

Specific Matters for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- a) Social contributions; and /or
- b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

PSAB Staff Response

PSAB staff have no comments on issues encountered in applying IPSAS 23.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSAB's Preliminary View 3? If not, please give your reasons.

PSAB Staff Response

PSAB staff agree that a public sector performance obligation approach should be applied to transactions that contain a performance obligation or stipulation. As noted above, we believe this should include both Category B and C transactions. This would simplify the application of the proposals and avoid unnecessary confusion as to which IPSAS would apply in a particular circumstance.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 – Identify the binding arrangement (paragraphs 4.29-4.35);

Step 2 – Identify the performance obligations (paragraphs 4.36-4.46);

Step 3 – Determine the consideration (paragraphs 4.47-4.50);

Step 4 – Allocate the consideration (paragraphs 4.51-4.54); and

Step 5 – Recognize revenue (paragraphs 4.55-4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

PSAB Staff Response

Step 1 - Identify the binding arrangement

We agree. As noted, many transactions in the public sector include arrangements for the provision of resources that are non-contractual but can still be enforceable obligations. This notion was also demonstrated in the proposals for Category C transactions as the phrase 'or equivalent binding arrangement' was added to the characteristics of such transactions.

We also agree that enforceability needs to go beyond a return obligation. A return requirement is only one possible aspect of enforceability terms for a contract or other binding arrangement that should be considered.

Possible guidance on enforceability

- Clear and unambiguous terms are necessary for performance to be assessed. If performance under an agreement is not clear, then it may not be possible to evaluate whether a performance obligation has been satisfied.
- An agreement that is cancelable without severe penalty/consequences does not bind the parties to the transaction to any significant degree.
- In an extreme case, such a "contract" may be little more than an expression of intent by the parties involved with virtually no power to bind them. Entering into such an agreement is an insignificant event for purposes of recognizing assets and liabilities.
- A penalty/consequences is considered to be severe if in the normal course of operations an entity would perform what is required under the agreement rather than incur the penalty/consequences.

Step 2 – Identify performance obligations

We agree that you need to consider when promises to deliver goods or services in the public sector are distinct or when they need to be bundled together to enable the identification of performance obligations and to assess when those performance obligations have been fulfilled.

Given that in the public sector the specificity of goods or services promised may vary greatly, it is crucial to develop criteria to determine distinct goods or services.

The criteria to determine whether a good or service is distinct in IFRS 15 would be a good starting point. These criteria would likely be appropriate in the public sector however, some additional thought would be needed for transfers to ensure they are still appropriate.

Staff disagree with the notion that a 'time requirement in and of itself 'would create a performance obligation. A time or return requirement should be irrelevant for initial recognition under a performance obligation approach. A return requirement may affect subsequent recognition, however, if the performance obligation is not satisfied. A determination that the obligation has and will not be satisfied would transform the liability for an unsatisfied performance obligation into a liability for the recipient to return resources to the transferor.

Step 3 – Determine the consideration

We agree that the amount of consideration is needed to be determined in order to allocate it to the identified performance obligations.

In the public sector, the characteristic of commercial substance as described in paragraph 4.47 (a) that refers to 'the amount of expected revenue will change as a result of changes to the nature, cost, value or volume of the promised goods and services to be delivered' may be problematic in the public sector. For example, there could be binding arrangements that contain performance obligations or stipulations that are not fully funded. As indicated earlier, characterizing transactions in this way may cause challenges and result in different interpretations. Therefore, as noted in paragraph 4.48, determining the consideration based on what the resource recipient expects to be entitled to for the promised services is appropriate.

Step 4 – Allocate the consideration

We agree that there may be circumstances where a stand-alone selling price is not available and other methods will need to be provided for allocating the consideration. It is reasonable in the public sector that one such method may be based on the cost of fulfilling the performance obligation.

Step 5 – Recognize revenue

We agree that revenue would be recognized as the performance obligations are fulfilled. As noted in the Consultation Paper, in some circumstances, determining when those performance obligations have been satisfied may be difficult, such as when waiting for a report that all vaccines have been delivered to the general community. The concern is that revenue recognition would be delayed.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulation):

- a) Option (b) — Require enhanced display/disclosure;
- b) Option (c) — Classify time requirements as a condition;
- c) Option (d) — Classify transfers with time requirements as other obligations; or
- d) Option (e) — Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

PSAB Staff Response

PSAB staff prefer Option (b) - Require enhanced display and disclosure option to address transactions with time requirements. This approach is consistent with the element definitions of financial statements and will provide the necessarily information for accountability and decision-making.

Applying either Option (d) or (e) would require a great deal of consideration as these would represent new ground being explored. Option (d), other resources and other obligations were established in the IPSASB's conceptual framework. This category has not yet been used in any IPSAS. A great deal of consideration will be needed to determine whether it is appropriate to start treating timing differences as other resources and other obligations. This type of transaction may not be a precedent that the IPSASB wants to establish; recognition in accordance with time requirements. The IPSASB may want to reserve use of the "other resources" and "other obligations" categories for recognition of complex public sector transactions for which accountability will not be served through recognition of the transaction using the elements of financial statements.

Option (e) to recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance is an option that has currently been used only for convergence projects with IFRS. Such direct recognition in net assets/equity is articulated in IPSAS 1 (paragraphs 101, 118(b), 121, 123) and it is described as comprising items of revenue and expense that are required by other IPSAS to be excluded from surplus/deficit. Applying this approach to timing differences would be new ground; but it may be a less complex approach for stakeholders than option (d) as direct recognition in net assets/equity is already an established approach in the IPSAS. It should be noted, as well, that direct recognition in net assets or net liabilities –though not in relation to time requirements - is consistent with proposals of PSAB in its new Statement of Principles for a Revised Reporting Model for the Canadian Public Sector (approved in December 2017; expected to be issued in late May/early June 2018 after translation).

Caution is needed when providing illustrative examples of what the disclosures may be and how the disaggregated information maybe presented. As noted in the current example provided for how the disaggregated revenue may be presented in paragraph 4.17, the use of the term 'revenue receivable' for

the restricted component of the revenue that is to be used in future periods is somewhat misleading assuming the entity has already received the money.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

- a) Yes
- b) No

Please explain your reasons.

PSAB Staff Response

Yes. Given that the exchange/non-exchange is still going to be made, any additional guidance to help understand the difference between those two categories in the public sector would be helpful. The phrases identified in the Consultation Paper, 'directly giving' and 'approximately equal value' are problematic in the public sector and can be interpreted differently.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

PSAB Staff Response

Yes, accounting for capital grants should be addressed within IPSAS. The issues needed to be addressed may be different depending on whether a performance obligation approach is applied or the exchange/non-exchange approach. Addressing this issue will help improve consistency of application and comparability.

Specific Matter for Comment 5 (following paragraph 5.5)

- a) Has the IPSASB identified the main issues with capital grants?
If you think that there are other issues with capital grants, please identify them.
- b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?
Please explain your issues and proposals.

PSAB Staff Response

Agree with main issues identified.

In relation to updating requirements in the IPSAS for capital grants we offer the following:

- Please see Appendix B. It includes excerpts from PSAB's 2007 Re-exposure Draft that set out proposals to revise Government Transfers, Section PS 3410. These proposals were not accepted

in Canada. But they were based on IPSAS 23 and tried to add more guidance for making the restriction versus condition distinction required by IPSAS 23, even though such terms were not specifically used in the re-exposure draft. The proposed recipient accounting was for all transfers, including capital grants; so it may be useful in updating IPSAS 23.

- PSAB's ultimate decision in relation to capital transfers received in the new Section PS 3410 was a pragmatic "made in Canada" solution that gives accounting credence to both transferor terms and recipient actions and communications in trying to reflect the substance of individual capital transfers. A couple of Canadian jurisdictions prefer that all capital transfers be accounted for in the same manner and have legislated accounting requirements for capital transfers received to achieve that consistency.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- b) Modify requirements to require services in-kind that meet the definition of an asset to be recognized in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- c) An alternative approach.

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

PSAB Staff Response

Staff agree that there are many challenges associated with developing accounting standards for services in-kind and the cost of obtaining the information needs to be considered against the benefit of providing the information. Additional research is needed to determine the impact of the alternatives above. Nevertheless, if a decision is required, b) would be consistent with the new conceptual framework and therefore would be a more theoretically defensible approach.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

PSAB Staff Response

Agree.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

PSAB Staff Response

Agree.

However, we note that PV 5 requires use of the Extended Obligating Event Approach and then PV 6 states that there is no obligating event. Although we agree with the ultimate conclusion that expenses should be recognized as the related services are delivered, we feel that PV 5 and PV 6 are somewhat contradictory.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

PSAB Staff Response

Agree that it would be beneficial to have consistent approaches for revenue and expenses. Therefore, if a performance obligation approach can be applied to revenues, then there may be merit to applying the same approach to expenses. However, symmetrical accounting should not be forced. A resource provider and resource recipient may not have the same evidence to support recognition and the element definitions should be the ultimate gatekeepers of whether an asset or liability is recognized.

Further, a performance obligation approach for expenses may have additional challenges.

- For example, the expense recognition may be delayed as the resource provider must be able to determine whether the resource recipient or in some cases the resource beneficiary has satisfied the performance obligations. Mechanisms will need to be in place to provide reliable and timely information to indicate when performance obligations are satisfied.
- Performance obligations imposed on a recipient of funding might have no accounting significance for the transferor unless (and until) the obligation is not met. In such cases the transferor might expect to get some funds back or would reduce future funding; and the receivable and revenue recognition would be future events.
- Chapter 6 does not address this possibility and assumes that a performance obligation imposed on recipient of transferred funds would also have an impact on the accounting by the transferor. When funds are provided by a transferor in advance of a performance obligation being met, a

prepaid asset is created for the transferor. But a full evaluation of whether the asset definition is met for a transferor when funds that have already flowed is not provided (or if this evaluation is done, no reference to it is included in Chapter 6).

- A transferor does not control the transferred funds until they are used by the recipient for the intended purposes. How would the transferor continue to control these funds? The transferor may have legal recourse to get the funds back if the performance obligation is not satisfied but retains no control of the funds transferred once they are gone. They become an asset of the recipient and give rise to the related performance obligation liability for the recipient.

Preliminary View 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

PSAB Staff Response

PSAB staff do not agree with initial recognition of non-contractual receivables to be measured at face value (legislated amount) with the amount expected to be uncollectible identified.

The CPA Canada Public Sector Accounting Handbook, TAX REVENUE, paragraph PS 3510.09 states, "A government would only recognize tax revenue that it expects to collect in accordance with the general recognition criteria in FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.55. If at the time the tax is imposed, the government expects for specific or exceptional reasons that it is unlikely to collect it, the tax revenue would not be recognized...."

Furthermore, the recently issued Exposure Draft, Revenue, Proposed Section PS 3400, notes that a public sector entity recognizes only those future economic benefits it expects to obtain. In this regard, two circumstances have been identified as critical to revenue recognition. Revenue is expected when the public sector entity:

- (a) has the information required to record the transaction; and
- (b) is able to enforce payment.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

PSAB Staff Response

The IPSASB has a Measurement project underway, perhaps it would be better to wait and see what conclusions are reached in that project.

Having said that, Approach 3 – the cost approach may be more straightforward and understandable for users. This approach would require fewer decisions on interest rates. Also, it could be argued that non-contractual receivables that arise from taxes and fines and penalties for example are not really ‘financing transactions’.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- a) Cost of Fulfillment Approach;
- b) Amortized Cost Approach;
- c) Hybrid Approach; or
- d) IPSAS 19 requirements?

Please explain your reasons.

PSAB Staff Response

The IPSASB has a Measurement project underway, perhaps it would be better to wait and see what conclusions are reached in that project.

Having said that, the cost of fulfillment approach seems the most straightforward and easy to understand.

Appendix B

Excerpts from PSAB's 2007 Re-exposure Draft for Government Transfers, Section PS 3410

Note: These proposals were not accepted in Canada. But they were based on IPSAS 23 and tried to add more guidance for making the restriction versus condition distinction required in IPSAS 23, even though such terms were not specifically used in the re-exposure draft.

Highlights to Re-Exposure Draft - Recipient Government

The proposals in the Re-Exposure Draft require a transfer to be recognized as revenue in the period the transfer is authorized and any eligibility criteria are met, except when and to the extent that the transfer stipulations create a liability in accordance with LIABILITIES, Section PS 3200. This proposal is similar to IPSAS 23.

The nature, extent and specificity of the transfer stipulations are fundamental to distinguishing revenue from liability. If the transfer stipulations establish both substantive performance and return requirements, the recipient will initially recognize a liability and revenue will be subsequently recognized as the stipulations are met.

When substantive performance and return requirements are included in the stipulations, this creates a liability for a recipient government. The recipient government has no discretion to avoid the sacrifice of future economic benefits (i.e., either to the ultimate beneficiaries of the goods or services to be provided or back to the transferor). A present obligation is imposed on a recipient government by its acceptance of a transfer with both substantive performance and return requirements.

A performance requirement has substance when it is specifically identifiable and permits the objective assessment of non-compliance. Normally, a performance requirement is identifiable when the stipulations define the nature of the future economic benefits to be sacrificed by the recipient through a specific purpose stipulation combined with time stipulations. This leaves the recipient with little or no discretion over the use of the asset and the time period it is to be used.

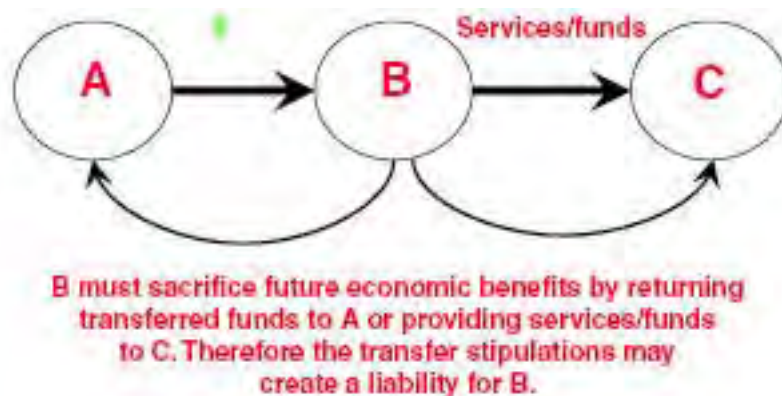
A return requirement has substance when it is specifically identifiable, related to a breach of the performance requirements and enforceable. The nature and extent of the accountability stipulations included in the transfer terms would be evaluated to determine if they impose an identifiable and enforceable return requirement on a recipient government. Stipulations would not create a liability unless the return requirement is sufficiently explicit to ensure that the recipient must use the resources as specified or return the resources or their equivalent to the transferor. It is the existence of an explicit, substantive return requirement coupled with a substantive performance requirement that indicates a recipient has lost its discretion to make individual choices, judgments or decisions relating to the asset, thus prompting liability recognition.

Stipulations would not create a liability unless the performance requirement is defined in a manner that permits objective assessment of non-compliance. If non-compliance cannot be objectively assessed, determining when a return requirement would be triggered also cannot be assessed. The return requirement would lack sufficient enforceability and the stipulations would not create a liability for a recipient government.

A performance requirement alone is insufficient, as the recipient retains some discretion to avoid the sacrifice of resources back to the transferor. An implied requirement to return resources to the transferor is also insufficient to remove the recipient government's discretion.

The following diagram illustrates B's limited choices as a recipient of a transfer with both substantive performance and return requirements.

Transfer received or receivable with performance requirement and return requirement



Excerpt from the text of the re-exposure draft

Recipient government

- .15 ► A government transfer should be recognized by a recipient government as revenue in the period the transfer is authorized as described in paragraph PS 3410.28 and eligibility criteria, if any, have been met by the recipient, except when and to the extent that the transfer stipulations create a liability in accordance with LIABILITIES, Section PS 3200.
- .16 Transfer terms described as eligibility criteria but not met before a transfer is provided by the transferor would be considered stipulations for the purposes of paragraph PS 3410.15.
- .17 ► A liability recognized in accordance with paragraph PS 3410.15 should be reduced and an equivalent amount of revenue recognized as the transfer stipulations are met.
- .18 The standards in paragraphs PS 3410.15 and PS 3410.17 apply equally to an operating transfer, a capital transfer and a transfer of a tangible capital asset.
- .19 For a capital transfer recognized as a liability in accordance with paragraph PS 3410.15 transfer stipulations would require revenue recognition as the related asset:
 - (a) is acquired or developed; or
 - (b) is used to provide goods or services to third parties over the specified period up to a maximum of its useful life.

- .20 The transfer of a tangible capital asset would be recognized by a recipient government in the amount of the asset's fair value (see TANGIBLE CAPITAL ASSETS, Section PS 3150). For a transfer of a tangible capital asset recognized as a liability in accordance with paragraph PS 3410.15 transfer stipulations would require revenue recognition as the asset is used to provide goods or services to third parties over the specified period up to a maximum of its useful life.

Stipulations

- .21 ► *To create a liability for a recipient government in accordance with paragraph PS 3410.15, transfer stipulations should collectively establish both substantive performance and return requirements.*
- .22 Performance and return requirements are substantive when:
- (a) The performance requirement is identifiable from the stipulations and permits objective assessment of non-compliance.
 - (b) The return requirement is identifiable from the stipulations, related to a breach of the performance requirements and enforceable.
- When stipulations establish both types of requirements, a recipient government loses its discretion to avoid a sacrifice of future economic benefits. It must either use the transferred resources as specified or return them or their equivalent⁷ to the transferor.
- .23 Normally, a performance requirement is identifiable when the stipulations:
- (a) define the nature of the future economic benefits to be sacrificed by the transfer recipient through a **purpose stipulation** that leaves the recipient with little or no discretion over the use of the transferred resources; and
 - (b) establish future **time stipulations** that leave the recipient with little or no discretion over the period(s) in which the transferred resources are to be used or consumed. LIABILITIES, Section PS 3200, requires that the timing of the sacrifice of economic benefits in the future be specified.
- .24 Transfer terms that require ongoing monitoring of performance and impose related consequences for non-compliance are called **accountability stipulations**. The nature and extent of the accountability stipulations would be evaluated to determine if they impose an enforceable return requirement on a recipient government. In the absence of an enforceable return requirement in the stipulations, a recipient government would not recognize a liability in relation to a transfer. It is this additional requirement that removes any discretion of the recipient government to avoid a sacrifice of future economic benefits related to the transferred resources.
- .25 Stipulations would not create a liability for a recipient government unless the performance requirement is defined in a way that permits objective assessment of non-compliance. A broad functional description such as "health", "education" or "transportation" or a broad purpose stipulation such as "operating" or "capital" would not be specific enough for non-compliance with the performance requirement to be objectively assessed. If non-compliance cannot be objectively assessed over the term of a liability recognized in accordance with paragraph PS 3410.15, the timing of when a return requirement would be triggered also cannot be assessed. In such cases, the return requirement lacks sufficient enforceability and therefore the stipulations would not create a liability for a recipient government.
- .26 If the accountability stipulations do not allow for the monitoring of performance over the term of a liability recognized in accordance with paragraph PS 3410.15, the timing of when a return requirement would be triggered cannot be assessed and the stipulations would not create a liability for a recipient government.



Paris, le 25/01/18

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Mr John Stanford
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Subject : Response to Consultation Paper Accounting for "*Revenue and Non-Exchange Expenses*".

I am writing you on behalf of the French Directorate of Public Finances (hereinafter mentioned as DGFIP) to express our views on the above mentioned Consultation.

Head of Central Government Accounting Department

François Tanguy

This consultation relates to the accounting for Revenue and Non-Exchange Expenses.

The DGFIP contributed to the drafting of the reply and accordingly shares the position expressed by the Public Sector Accounting Standard Concil (CNoCP or The Concil) annexed to this dossier.

Version française

Cette consultation est relative à la comptabilisation des produits et charges sans contrepartie.

La DGFIP a contribué à la rédaction de la réponse et partage en conséquence la position exprimée par le Conseil de normalisation des comptes publics (CNoCP ou le Conseil) jointe en annexe au présent dossier.



Paris, January 19, 2018

LE PRÉSIDENT

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Re: Response to Consultation Paper Accounting for *Revenue and Non-Exchanges Expenses*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Consultation Paper *Accounting for Revenue and Non-Exchanges Expenses* published in August 2017.

The CNoCP welcomes the overall approach retained by the IPSASB that focuses on the features of transactions specific to the public sector. In that sense we would strongly recommend that the application of IFRS 15 *Revenue from Contracts with Customers* to relevant transactions in the public sector should be carefully and comprehensively thought through. IFRS 15 is effective as from 1 January 2018 in the private sector; hence as of now, no thorough feedback exists on its application. This makes it difficult to assess the impact and efficiency of its adaptation to the public sector.

On the other hand, the CNoCP understands the need to explore convergence with the principles set out for the private sector on revenue recognition. Because IFRS 15 was commented upon extensively as part of the IASB's process, we will not comment upon its merits or demerits as to



its application to category C transactions¹. We will rather focus on issues that could be raised if the performance obligation approach was retained to account for category B transactions².

In a context of increased attention to performance to evaluate public finance management, we would broadly agree that exploring an approach based on the identification of performance obligations within a transaction is conceptually sound. It provides for a framework that relies on the exercise of judgement. We would support that path forward as long as it allows for various transactions across jurisdictions to be accounted for in a relevant manner taking into account as many elements of context as possible. In that case, we would strongly advise that extensive application guidance should be available to constituents. Category B transactions should definitely be the focal point of future steps for that project.

As much as convergence is a key driver of IPSASs development, we however believe that IPSAS 23 still has merits, though it would need to be revised to ease its application. Current IPSAS 23 fails to provide pragmatic requirements on how to account for stipulations such as time requirements, namely in multi-year funding agreements; this leads to difficulties in identifying the revenue recognition point in time.

With respect to revenue from category A transactions³, we are of the view that a reliable measure of revenue should be a key factor of revenue recognition. This is why in France the government does not recognise estimated revenue from taxable income not fully known until a tax return is filed. Rather, the government recognises revenue upon reception of the tax return. We believe that this is a practical relief that bears a positive cost/benefit ratio while still providing relevant information on a year on year basis.

We would expect further work as to the articulation between conditions as in IPSAS 23 *Revenue from Non-Exchange Transactions* and performance obligations as in IFRS 15. We believe that the performance obligation approach would better reflect the Conceptual Framework's qualitative characteristics. From our standpoint, conditions refer to the legal form of the transactions rather than to its substance. However, before we can perform an in-depth analysis along these lines, we

¹ Category C transactions are transactions that involve the transfer of promised goods or services to customers as defined in IFRS 15, typically transactions similar to those in the private sector.

² Category B transactions are transactions that contain performance obligations (IFRS 15) or stipulations (IPSAS 23), but do not have all the characteristics of transactions within the scope of IFRS 15, typically capital grants.

³ Category A transactions are transactions that with no performance obligation or stipulation, typically taxes and transfers (non-exchange transactions).



would need further insight on the effects on the financial statements of a performance obligation approach on category B transactions.

Finally, we note that the Board decided, at the 2017 December meeting, to phase-in the whole project. They now propose three streams to the project on Revenue and two streams to the project on Non-Exchange Expenses. We understand that that new timeline is meant to fast track those streams where the Board can reach consensus quickly (namely on category A and C transactions), only to allow more time to explore the more complex category B transactions. However, we would recommend that the new requirements should be effective as a whole at one point in time rather than on a stream by stream basis; this is to ensure consistency of accounting treatments between the various categories of transactions once they all have been fully explored.

In that context, we decided that we would provide overall responses to the detailed questions set out in the Consultation Paper. We will expand further upon those points as the various project streams progress and as further consultation documents are published for public comments.

Yours sincerely,

Michel Prada



APPENDIX

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9 Revenue from Exchange Transactions, and IPSAS 11 Construction Contracts with an IPSAS primarily based on IFRS 15 Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15;*
- and*
- (b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.*

Do you agree with the IPSASB's Preliminary View 1? Please give your reasons

We understand that the objective of the new timeline for the Revenue project is to progress quickly on the accounting treatment for category C transactions that are similar to the private sector. However, we would like to stress upfront that category A transactions -and to a lesser extent category B transactions- are not only specificities of the public sector, but are also the most significant transactions in amounts and volumes. We believe that stating, in any communication on the progress of the project, that the Board is well aware of the relative significance of the transactions is critical to the public interest in the project.

We would agree with the IPSAS Board that convergence with IFRS 15 is the right way forward for the revenue recognition of those transactions that are similar to the private sector's because category C transactions are akin to revenue transactions in the private sector and because IPSASs are to converge with IFRSs, except in those instances where the public sector specificities call for departures from IFRSs. We also note that IFRS 15 was already extensively commented on as part of the IASB's due process.

However, we would question the timing of such a convergence project; IFRS 15 is indeed effective from 1 January 2018 and we are aware that private sector entities struggle with its implementation. We would rather the Board wait for implementation in the private sector to settle down before taking a convergence project onto the agenda. Areas of concerns in the private sector include the identification of performance obligations in construction contracts and the determination of the timing of revenue recognition. Unresolved implementation issues in the private sector are likely to arise in the public sector as well, all the more as the cost



benefit ratio is a prevalent constraint; this might be the case for defence construction contracts for instance.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? Please give your reasons.

IPSAS 23 currently requires revenue from category A transactions such as taxes to be recognised when the event giving rise to the taxation took place, as long as measurement is reliable. In several jurisdictions, part or all the amount of taxes to be collected will not be reliably measurable at the point in time when the event giving rise to those taxes occurs. That is mainly because the Inland Revenue department will know of those taxes to collect upon receiving tax payers' returns, only after the taxable event took place.

Therefore, an updated IPSAS 23 should focus on the ability to reliably measure the amount of taxes and on the consequences on the timing of recognition. This is an area of wide implementation issues across jurisdictions where preparers need detailed guidance.

However, because the approach for category B transactions will be addressed last, and because in some cases it might be unclear as to where the drawing line is between transactions with or without performance obligation, we would strongly recommend that the scope of category A transactions should be clearly defined and assessed on the basis of practical examples. There could be an argument that real transactions are a continuum ranging from no performance obligation at all to containing performance obligations. In addition, it could also be useful, in the public sector, to explore performance obligations as being satisfied by the transfer of control of service potential rather than that of economic benefits; as a consequence, one could question the need for different standards.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or*
- (b) Taxes with long collection periods.*



If you believe that there are further areas where the IPSASB should consider providing further guidance in and updated IPSAS 23, please identify these and provide details of the issues that you have encountered together with an indication of the additional guidance you believe is needed.

In France, the general principle for social contributions recognition is upon the realisation of the taxable event, actually in line with the general recognition principle in IPSAS 23. However, some contributions or taxes (it is not always easy to draw the line clearly between the two) remain based on a tax return by individuals or households because the reliable measurement criterion fails to be met. In those instances, and should an updated IPSAS 23 be retained, further guidance on the application of the general recognition principle would be needed.

With respect to taxes with long collection periods, we actually fail to see to what they would refer in practice in our jurisdiction. We would need further explanations as to what transactions are at stake here.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

We would agree with Preliminary View 3 in that we believe that the performance obligation approach conceptually fits better the principle of substance over form than conditions or restrictions that are more of a legal nature. Stipulations are set out in an agreement while performance obligation requires a judgement call on a thorough analysis of the economic effects of a transaction.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

Step 1 - Identify the binding arrangement (paragraphs 4.29 – 4.35)

Step 2 - Identify the performance obligation (paragraphs 4.36 – 4.46)

Step 3 - Determine the consideration (paragraphs 4.47 – 4.50)

Step 4 - Allocate the consideration (paragraphs 4.51 – 4.54)



Step 5 - Recognize revenue (paragraphs 4.55 – 4.58)

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?

If not, please explain your reasons.

While we agree in principle on how each of the IFRS 15 steps could be broadened, we would like to draw attention on the more practical aspect of implementing those steps by reference to the difficulties that private sector entities currently experience. We believe that steps 1 and 2 - that consist in identifying the performance obligation within an identified binding agreement- are critical issues that need to be addressed in priority.

In addition, we note that the step by step approach, while intellectually sound to help analyse a transaction, might also prove to be more fastidious to implement as judgement will have to apply to all and every step.

We understand further research will be performed on that very subject and we will closely follow-up and comment on future developments.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- (a) Option (b) – Require enhanced display/disclosure;*
- (b) Option (c) – Classify time requirements as a condition;*
- (c) Option (d) – Classify transfers with time requirements as other obligations; or*
- (d) Option (e) - Recognize transfers with time requirements in net assets/ equity and recycle through statement of financial performance.*

Please explain your reasons.

We note that if time requirements were considered conditions as in option (c), the application of IPSAS 23 would lead to the recognition of an asset and a liability that would be settled overtime, hence providing for overtime recognition of revenue. While we would agree on the overtime recognition of revenue that is in line with current practice in our jurisdiction, we would express reservations as to the additional burden to the statement of financial position as long as cash hasn't been received.



Before we can explore further the accounting for time requirements, we would like to get more insights as to the effects on a mirror approach between revenue and expenses. Also, we do not have practical examples in our jurisdiction of agreements containing time requirements only; there are always other stipulations such as the implicit existence of the entity.

In addition, we observe that the fact that time requirements are difficult to classify as conditions or restrictions is a reason why the performance obligation approach would need to be further explored for category B transactions.

Finally, we note that (c) is inconsistent with the Conceptual Framework and that (e) would require the introduction of the concept of Other Comprehensive Income (OCI).

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

Because the definition of an asset includes a reference to the service potential as well as to the economic benefits, the distinction exchange/non-exchange seems artificial in the public sector.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

Capital grants are a major source of financing in the public sector in France. Because they serve the purpose of providing funds to entities to build or acquire long-term assets that will be mainly used to provide a service potential, and because they may take various forms, there is a need to address those transactions explicitly, both from the provider and the beneficiary perspectives.

Also, with a view to consistency with other IPSASs, it could be useful to explore instances where capital grants may take the form of concessionary loans.



In that sense we would agree on the phased-in new timeline for the whole project that would allow for more time to address category B transactions.

Specific Matter for Comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants?

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

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

We believe that there are other issues with capital grants that the IPSAS Board should consider, for instance from the grantor's perspective, i.e. from the expense side. To illustrate the issue, in France, local authorities may grant subsidies to beneficiary entities for the acquisition or construction of long-term assets, controlled by the beneficiary entities, that serve a service potential as part of a specific public mission. Those subsidies are substantially equivalent to the direct acquisition or construction of the long-term assets by the grant provider; therefore, at the level of the individual reporting entity, grants provided are considered assets of the providing entity that generate service potential, as long as they meet strict recognition criteria.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

(a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or

(b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or

(c) An alternative approach.

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

In our jurisdiction, services in-kind are recognised only if they can be measured reliably. However, we haven't explored that issue further yet in the context of the Consultation Paper.



The new phase-in of the project will probably allow providing additional comments at a later stage.

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under the Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Notwithstanding the difficulties that may arise from the definition of the scope of the Social Benefits project with respect to universally accessible services, we believe that collective goods and services should be expensed as delivered and future expenses are not a present obligation of the public sector entities. Therefore, we would approve of any approach that would allow for the abovementioned accounting treatment.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

We agree.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

From the perspective of developing consistent mirror approaches, we would agree that the PSPOA is the way forward. However, at this stage of the project, we would need further understanding of how the performance obligation would apply on the revenue side before we can reach an informed decision on the PSPOA.

***Preliminary View 8 (following paragraph 7.18)***

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSAS's Preliminary View 8? If not, please give your reasons.

We agree with the use of face value at initial recognition of non-contractual receivables. However, we would not book impairment for uncollectible amount upon initial recognition. We would rather recognise impairment on an incurred loss model basis.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

As stated in our response to the above question, we recognise impairment at each reporting date based on face value at initial recognition. Therefore, we would not agree with final pronouncements requiring the use of fair value for subsequent measurement of non-contractual receivables.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfillment Approach;*
- (b) Amortized Cost Approach;*
- (c) Hybrid Approach; or*
- (d) IPSAS 19 requirements?*

Please explain your reasons.

We would support a best estimate approach as in IPSAS 19.



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February 8, 2018

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International Public Sector Accounting Standards Board Consultation Paper: *Accounting for Revenue and Non-Exchange Expenses*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the International Public Sector Accounting Standards Board's (IPSASB) Consultation Paper (Consultation Paper) entitled *Accounting for Revenue and Non-Exchange Expenses*. We welcome the opportunity to comment on the Consultation Paper and support the board's efforts to reevaluate requirements and guidance for revenue transactions and non-exchange expense transactions. Our responses to the questions in the Consultation Paper follow.

1. Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace International Public Sector Accounting Standard (IPSAS) 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts* with an IPSAS primarily based on International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*. Such an IPSAS will address Category C transactions that:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) Arise from a contract (or equivalent binding arrangement) with a customer that establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons.

We are in agreement with Preliminary View 1. The IPSASB has an objective of convergence with The International Accounting Standards Board (IASB) standards, where appropriate.¹ Towards that end, for Category C revenue transactions in the public sector, which are similar in nature and substance to for-profit revenue transactions, the IPSASB considers that the standards-level requirements and guidance of the IPSASB and IASB should be converged and provide the same outcomes. We agree that the extent of the modifications to IPSAS 9 and 11 as described in Preliminary View 1 will be generally limited to changes of terminology rather than substance.

¹ IASB is an independent, private-sector body that develops and approves International Financial Reporting Standards.

2. Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23, *Revenue From Non-Exchange Transactions (Taxes And Transfers)*.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

The Consultation Paper defines Category A revenue transactions as revenue transactions with no performance obligations or stipulations. Such transactions include general taxation receipts and inter-governmental transfers, such as non-specific and non-earmarked grants. IPSAS 23 prescribes requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination, and deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions. As such, we agree that Category A revenue transactions should be addressed in an updated IPSAS 23, as indicated in Preliminary View 2.

3. Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

We provide no comments on Specific Matter for Comment 1.

4. Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions, which are transactions with performance obligations or stipulations that do not meet all the requirements of IFRS 15, should be accounted for using the *Public Sector Performance Obligation Approach (PSPOA)*.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

The development of the *PSPOA* for the public sector would mean that the current distinction between exchange and non-exchange transactions as the primary determination of accounting treatment for many transactions would be replaced with a distinction between transactions with performance obligations and those without performance obligations. As noted in our response to Specific Matter for Comment 3, we support the application of an updated IPSAS 23 approach to Category B transactions and not the application of the *PSPOA* to such transactions. We believe that non-exchange transactions are unique to the public sector and should be treated consistently (i.e., Category A and B transactions as well as transactions related to social benefits). We also question if determining whether the transaction has a performance obligation under the *PSPOA* would necessarily be more feasible and understandable than developing and applying a clarified distinction between exchange and non-exchange transactions to determine the appropriate accounting treatment.

5. Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 – Identify the binding arrangement (paragraphs 4.29-4.35);
- Step 2 – Identify the performance obligation (paragraphs 4.36 – 4.46);
- Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);
- Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and
- Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

While we do not have specific comments on the content of the IFRS 15 five-step approach, we do not support the application of the PSPOA to Category B transactions, as discussed in our response to Specific Matter for Comment 3.

6. Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- Option (b) – Require enhanced display/disclosure;
- Option (c) – Classify time requirements as a condition;
- Option (d) – Classify transfers with time requirements as other obligations; or
- Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

It is our view that an updated IPSAS 23 approach should be applied to Category B transactions. We favor updating IPSAS 23 through a combination of Option (b)—Require enhanced display/disclosure—and an option other than those listed above in Specific Matter for Comment 3. Under this other option, IPSAS 23 would be updated in a manner that is consistent with the Board's proposed broadening of the interpretation of the "enforceability" of performance in the PSPOA. As discussed in paragraph 4.32, the Board is proposing that the "enforceability" of performance in the PSPOA be expanded beyond the obligation of the resource recipient to return resources directly to the resource provider (as in the current IPSAS 23) to include all situations where the transferor of resources is able to take remedies in the event the resource recipient does not fulfill its performance obligation. The Board considers that interpreting "enforceability" in such a manner reflects the public sector context of binding arrangements, and that "enforceability" can be reflected by a range of non-contractual mechanisms, such as legislation, cabinet and ministerial decisions, and reductions of future funding for the same program.

It is our view that the definition of conditions in IPSAS 23, similarly, be expanded beyond an obligation of the resource recipient to return resources directly to the resource provider (as in the current IPSAS 23) to include all situations where the transferor of resources is able to take remedies in the event the resource recipient does not fulfill its performance obligation. Revising

IPSAS 23 in this manner may address some of the concerns associated with applying IPSAS 23.

7. Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in Specific Matter for Comment 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

- (a) Yes
- (b) No

Please explain your reasons.

Yes. We agree that the additional guidance should be developed for making the distinction between exchange and non-exchange transactions. Areas to address in such guidance might also include more clearly defining what “directly giving” and “approximately equal value” mean. As noted in our response to Preliminary View 3, non-exchange transactions are unique to public sector entities and should be treated consistently. Further, additional guidance should be developed for the “enforceability” concept (discussed in Specific Matter for Comment 3.)

8. Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.

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

We agree that accounting for capital grants should be explicitly addressed within IPSAS.

9. Specific Matter for Comment 5 (following paragraph 5.5)

- (a) Has the IPSASB identified the main issues with capital grants?
If you think that there are other issues with capital grants, please identify them.
- (b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

We believe that the Board has identified the main issues with capital grants. One other issue the Board may consider is a situation where a grant is made for the entire capital project, but the recipient is limited in the funds it may draw to those necessary to cover costs incurred by the recipient.

10. Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

- (a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or
- (b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
- (c) An alternative approach.

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

We believe that the IPSASB should modify requirements to require in-kind services that meet the definition of an asset to be recognized in the financial statements if they can be measured reliably and the services would have been purchased if they had not been donated. This would limit the implementation burden, while ultimately recognizing the cost of those services that would otherwise have been purchased by the entity.

11. Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under *The Extended Obligating Event Approach*.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

We agree that non-exchange transactions related to universally accessible services and collective services should be accounted for under *The Extended Obligating Event Approach*.

12. Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

We disagree with Preliminary View 6. We believe that there are obligating events for non-exchange transactions related to universally accessible services and collective services. Specifically, under *The Extended Obligating Event Approach*, we believe that it would be more appropriate to take a position that, given the nature of universally accessible services and collective services, an obligating event occurs when such services are provided to beneficiaries; however, present obligations may arise and liabilities may need to be recognized earlier for underlying transactions under other standards.² For example, the entity may incur liabilities and expenses related to exchange transactions prior to providing universally accessible services

² *The Extended Obligation Event Approach* states that the determining factor as to whether a resource provider has a liability and a corresponding expense or asset is whether there is an obligating event for the non-exchange transaction.

and collective services. Specifically, prior to the entity providing such services, it may purchase medical supplies to provide health care, purchase text books before the school term commences, or pay salaries and other costs for administrative activities. Further, the entity may incur liabilities when universally accessible services and collective services are provided to beneficiaries, but are paid for in a subsequent period.

In addition, in our view, it is critical that the accounting treatment for universally accessible services and collective services are consistent with the concepts proposed in the IPSASB *Social Benefits Exposure Draft* (Exposure Draft) issued in October 2017. For example, if there are two entities, one which provides universally accessible health care and one which provides health care benefits under the Exposure Draft, the accounting treatment should be consistent. For the entity with universally accessible health care, a liability would be incurred and an expense would be recognized when services are provided to eligible beneficiaries. However, for underlying transactions, a liability and an expense may be recognized earlier based on other standards, as noted above. For the entity which provides health care benefits under the Exposure Draft, a liability and an expense would be recognized when the beneficiary meets all of the eligibility criteria for the next benefit which generally occurs when the service is provided—such as when an eligible doctor provides an eligible health care service to an eligible beneficiary. Similar to universally accessible and collective services, liabilities and expenses may be recognized earlier for underlying transactions. In both situations, future obligations would be an aspect of the ongoing activities of the entities.

As the Board continues its efforts to develop possible improvements in the accounting for revenue and potential requirements and guidance for accounting for non-exchange expenses, we believe that it is essential for the Board to ensure consistency in the accounting treatment for universally accessible services and collective services as it works towards developing an accounting standard on Social Benefits.

13. Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the Public Sector Performance Obligation Approach (PSPOA) which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

We do not agree that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA. Rather, we believe they should be accounted for under the *Extended Obligating Event Approach*, consistent with the reasoning stated in our response to Preliminary View 3.

14. Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

We agree that, at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.

15. Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

We agree that subsequent measurement of non-contractual receivables should use the fair value approach.

16. Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables, do you support:

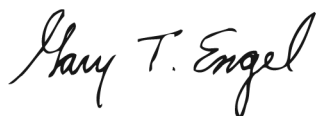
- (a) Cost of Fulfillment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

We believe that subsequent measurement of non-contractual payables should be based on the Cost of Fulfillment Approach. Such an approach is consistent with the IPSASB Conceptual Framework, relatively straightforward to apply, and produces understandable information.

We appreciate the opportunity to provide comments on the Consultation Paper. Please contact Robert Dacey, Chief Accountant at (202) 512-7439 or dacey@ga.gov if you have questions on GAO's perspectives.

Sincerely,



Gary T. Engel
Managing Director
Financial Management and Assurance
Enclosure