

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: New York, USA

Meeting Date: March 6–9, 2018

From: Joanna Spencer

Agenda Item 10

For:

☐ Approval

☒ Discussion

☐ Information

REVENUE

| | | |
|---|---|--------------------------------|
| Project summaries | <p>Revenue</p> <p>The aim of the project is to develop one or more IPSASs covering revenue transactions (exchange and non-exchange).</p> <p>The scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently in IPSAS 9, <i>Revenue from Exchange Transactions</i>; IPSAS 11, <i>Construction Contracts</i>; and IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>.</p> | |
| Meeting objectives | Topic | Agenda Item |
| Project management | Instructions–June 2017 meeting and before | 10.1.1 |
| | Decisions–June 2017 meeting and before | 10.1.2 |
| | Project roadmap | 10.1.3 |
| | Review of Responses - Checklist | 10.1.4 |
| Discussion Items at this meeting | Overview of Responses | 10.2 |
| | Revenue Transactions with Performance Obligations – Category C and Category B | 10.3.1 |
| | Modifying the IFRS 15 five-steps for Category B Transactions | 10.3.2 |
| | Revised IPSAS 23 – Category A Transactions | 10.3.3 |
| | Revenue Transactions with Time Requirements and Provision of Guidance on Exchange/Non-Exchange | 10.3.4 |
| | Accounting for Capital Grants | 10.3.5 |
| | Accounting for Services in-kind | 10.3.6 |
| Other supporting items | Comment Letters | IPSASB website |

Agenda Item 10.1.1

INSTRUCTIONS UP TO JUNE 2017 MEETING

| Meeting | Instruction | Actioned |
|---------------|--|--|
| December 2017 | As part of the review of the Work Plan, the IPSASB instructed staff to consider non-exchange expenses as two separate streams, <i>Collective and Individual Services</i> , and <i>Grants and Other Transfers</i> . | Reflected in the structure of these Agenda Items |
| December 2017 | The IPSASB requested staff consider how the Specific Matters for Comment and Preliminary Views relate to the different revenue and non-exchange expenses project streams. | See Appendix A to Agenda Item 10.2 |
| June 2017 | All instructions provided up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses | |

DECISIONS UP TO JUNE 2017 MEETING

| Date of Decision | Decision |
|------------------|---|
| June 2017 | All decisions made up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses . |

Agenda Item

10.1.3

REVENUE ROADMAP

| Meeting | Objective: IPSASB to consider: | | |
|----------------|---|--|--|
| | Revenue from Contracts with Customers (IFRS 15 Convergence) | Limited Update of IPSAS 23 | Grants and other Transfers |
| March 2018 | 1. Review Responses 2. Discuss Issues | 1. Review Responses 2. Discuss Issues | 1. Review Responses 2. Discuss Issues |
| June 2018 | 1. Discuss Issues | 1. Discuss Issues | 1. Discuss Issues |
| September 2018 | 1. Discuss Issues 2. Develop ED | 1. Discuss Issues 2. Exposure Draft | 1. Discuss Issues |
| December 2018 | 1. Discuss Issues 2. Develop ED | 1. Discuss Issues 2. Exposure Draft | 1. Discuss Issues |
| March 2019 | 1. Approve ED | 1. Exposure Draft | 1. Discuss Issues 2. Exposure Draft |
| June 2019 | | | 1. Discuss Issues 2. Exposure Draft |
| September 2019 | | | 1. Exposure Draft |
| December 2019 | 1. Review Responses | 1. Review Responses | |
| H1 2020 | 1. Discuss issues 2. Approve IPSAS | 1. Discuss issues 2. Approve IPSAS | 1. Review Responses |
| H2 2020 | | | 1. Discuss Issues 2. IPSAS |
| H1 2021 | | | 1. Approve IPSAS |

REVIEW OF RESPONSES - CHECKLIST

Staff have undertaken the review of responses using the NVivo software, as discussed with the IPSASB at their December 2017 meeting. This checklist provides details of the procedures followed by staff in undertaking the review of responses.

| Procedure | Completed |
|--|---|
| 1. Staff import all responses received into the NVivo software. | Yes. |
| 2. Staff import the master respondent profile list to ensure the analysis of respondents by region, function, and language is consistent between projects. | First review of responses using new procedures – no previous master list. |
| 3. Staff link the imported responses to the relevant respondent profile, adding new profiles where a respondent has not provided a response since staff began using the NVivo software. | Yes – new profiles created for all respondents. Analysis of respondents by region, function, and language is included in Agenda Item 10.2. |
| 4. Staff create a coding structure that reflects the Preliminary Views (PVs) and Specific Matters for Comment (SMCs) that the IPSASB raised in the Consultation Paper, and that allows staff to record the variety of answers to those PVs and SMCs. | Yes. |
| 5. Staff read and consider all responses. | Yes. Responses are available here |
| 6. Staff code related portions of the responses to the relevant answer to each PV and SMC | Yes |
| 7. Staff create additional coding for additional matters identified by respondents, and for common themes which apply across multiple SMCs and PVs, and code related portions of the responses to these additional matters and themes. | Yes |
| 8. Staff review the analysis within the software to ensure: <ul style="list-style-type: none"> (a) A response to each PV and SMC has been recorded for each respondent (in some cases the response will be “No comment”); (b) All sections of a response has been coded appropriately, with the exception of opening remarks, background on organization, repetition of PVs and SMCs, summary sections that merely repeat details included elsewhere, etc. | Yes |

Staff has developed a number of standard reports that provide details of how responses have been coded. These are not included in the Agenda Papers, but are available on request by Members.

Agenda Item

10.2.

Overview of Responses

Background – Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses*

1. The IPSASB approved Consultation Paper (CP), [*Accounting for Revenue and Non-Exchange Expenses*](#) at the June 2017 meeting. The CP was issued in August 2017 with comments due January 15, 2018.
2. The CP expressed nine Preliminary Views (PV) of the Board and asked seven Specific Matters for Comment (SMC). All the PVs expressed were agreed by at least two thirds of the IPSASB.
3. The topics covered in the CP are as follows:
 - (a) Revenue transactions (Chapters 2-4);
 - (b) Capital Grants and Services in-kind (Chapter 5);
 - (c) Non-Exchange Expenses (Chapter 6); and
 - (d) Measurement of Non-Contractual Receivables and Non-Contractual Payables (Chapter 7).

Structure of the analysis of responses

4. The structure of the analysis of responses in the following agenda papers does not necessarily follow the same order of the PVs or SMCs asked in the CP. Rather staff have grouped the PVs and SMCs based on common themes that emerged whilst reviewing constituent comments. As requested by the IPSASB at its December 2017 meeting, a table showing the relationship between the PVs and SMCs, the project streams agreed at the December 2017 meeting and the agenda papers (both here and in Item 12, Non-Exchange Expenses) is provided at Appendix A.
5. This agenda item will only consider the responses to the topics mentioned in paragraph 3(a) and 3(b). Responses to non-exchange expenses and measurement issues are discussed in Agenda Item 12 of this meeting.

Responses Received

6. Thirty-eight responses were received. And came from a wide variety of jurisdictions and organizations – standard-setters, audit offices, member bodies, accountancy firms and preparers.
7. A list of respondents and the demographics of those respondents (shown graphically) are provided in Appendices B and C.

MAPPING OF SMCS AND PVS TO PROJECT STREAMS

| SMC or PV | Project Stream | Agenda Item |
|--|--|-------------|
| <p>Preliminary View 1</p> <p>The IPSASB considers that it is appropriate to replace IPSAS 9, <i>Revenue from Exchange Transactions</i>, and IPSAS 11, <i>Construction Contracts</i> with an IPSAS primarily based on IFRS 15, <i>Revenue from Contracts with Customers</i>. 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> | <p>Revenue</p> <p>Revenue from Contracts with Customers (IFRS 15)</p> | 10.3.1 |
| <p>Preliminary View 2</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> | <p>Revenue</p> <p>Limited Update of IPSAS 23</p> | 10.3.3 |
| <p>Specific Matter for Comment 1</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"> (a) Social contributions; and/or (b) 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> | <p>Revenue</p> <p>Limited Update of IPSAS 23</p> | 10.3.3 |

| SMC or PV | Project Stream | Agenda Item |
|---|---|-------------|
| <p>Preliminary View 3</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> | <p>Revenue</p> <p>Grants and Other Transfers (Category B Transactions)</p> | 10.3.1 |
| <p>Specific Matter for Comment 2</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;</p> <p>Step 2 – Identify the performance obligation;</p> <p>Step 3 – Determine the consideration;</p> <p>Step 4 – Allocate the consideration; and</p> <p>Step 5 – Recognize revenue.</p> <p>Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?</p> <p>If not, please explain your reasons.</p> | <p>Revenue</p> <p>Grants and Other Transfers (Category B Transactions)</p> | 10.3.2 |
| <p>Specific Matter for Comment 3</p> <p>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):</p> <p>(a) Option (b) – Require enhanced display/disclosure;</p> <p>(b) Option (c) – Classify time requirements as a condition;</p> <p>(c) Option (d) – Classify transfers with time requirements as other obligations; or</p> <p>(d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.</p> <p>Please explain your reasons.</p> | <p>Revenue</p> <p>(Revision of current projects streams would be required)</p> | 10.3.4 |

| SMC or PV | Project Stream | Agenda Item |
|---|---|-------------|
| <p>Specific Matter for Comment 4</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> <p>(a) Yes</p> <p>(b) No</p> <p>Please explain your reasons.</p> | <p>Revenue</p> <p>(Revision of current projects streams would be required)</p> | 10.3.4 |
| <p>Preliminary View 4</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> | <p>Revenue</p> <p>Grants and Other Transfers (Category B Transactions)</p> | 10.3.5 |
| <p>Specific Matter for Comment 5</p> <p>(a) Has the IPSASB identified the main issues with capital grants?</p> <p>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?</p> <p>Please explain your issues and proposals.</p> | <p>Revenue</p> <p>Grants and Other Transfers (Category B Transactions)</p> | 10.3.5 |
| <p>Specific Matter for Comment 6</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 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</p> <p>(c) An alternative approach.</p> <p>Please explain your reasons. If you favor an alternative approach please identify that approach and explain it.</p> | <p>Revenue</p> <p>Limited Update of IPSAS 23</p> | 10.3.6 |

| SMC or PV | Project Stream | Agenda Item |
|---|--|-------------|
| 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. | Non-Exchange Expenses Collective and Individual Services | 12.2.1 |
| 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. | Non-Exchange Expenses Collective and Individual Services | 12.2.1 |
| 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 | Non-Exchange Expenses Grants and Other Transfers | 12.2.2 |
| 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. | Revenue All Streams | 12.2.3 |
| 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. | Revenue All Streams | 12.2.4 |

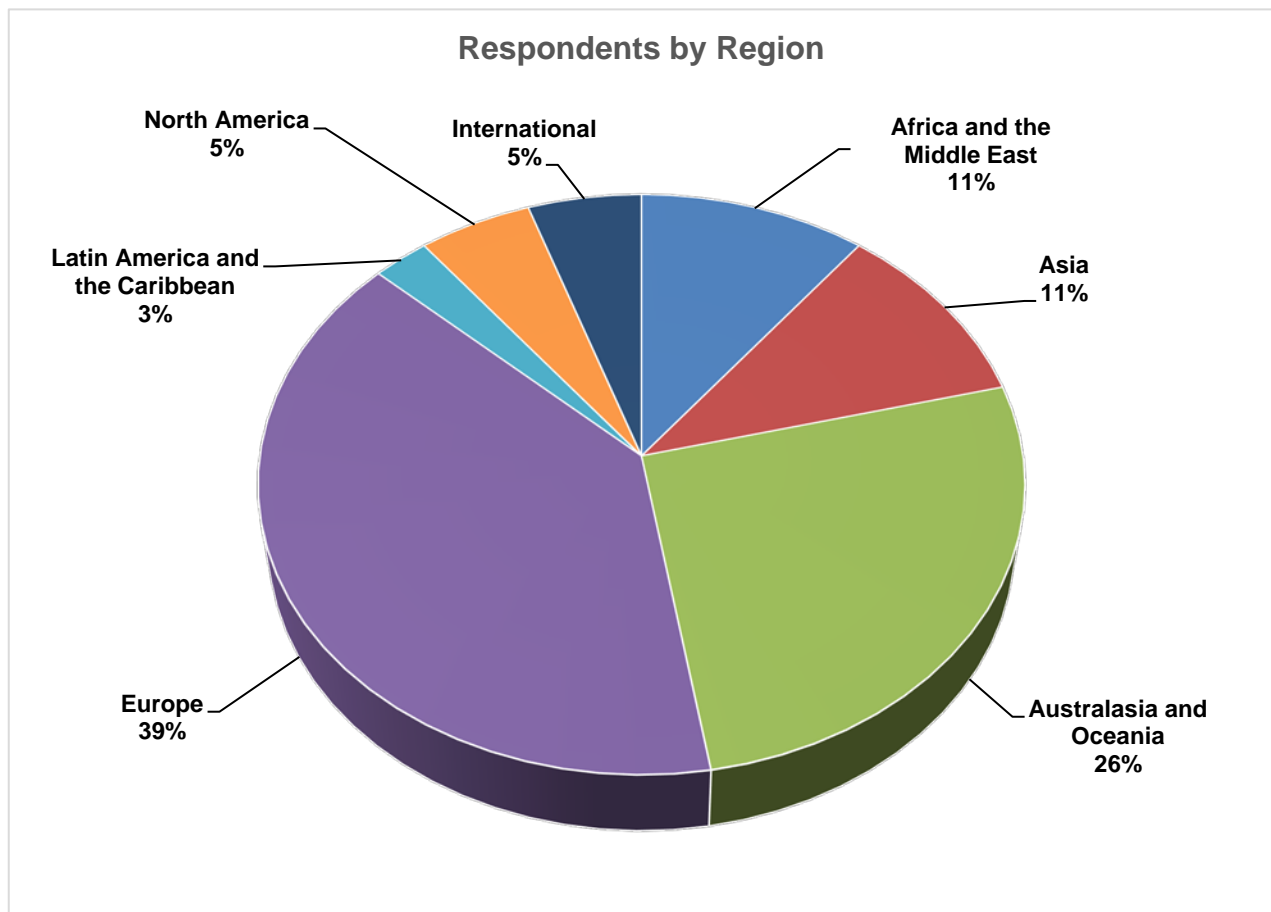
| SMC or PV | Project Stream | Agenda Item |
|--|--|---------------|
| <p>Specific Matter for Comment 7</p> <p>For subsequent measurement of non-contractual payables do you support:</p> <p>(a) Cost of Fulfillment Approach;</p> <p>(b) Amortized Cost Approach;</p> <p>(c) Hybrid Approach; or</p> <p>(d) IPSAS 19 requirements?</p> <p>Please explain your reasons</p> | <p>Non-Exchange Expenses</p> <p>All Streams</p> | <p>12.2.5</p> |

REVENUE AND NON-EXCHANGE EXPENSES

Analysis of Respondents by Region, Function, and Language

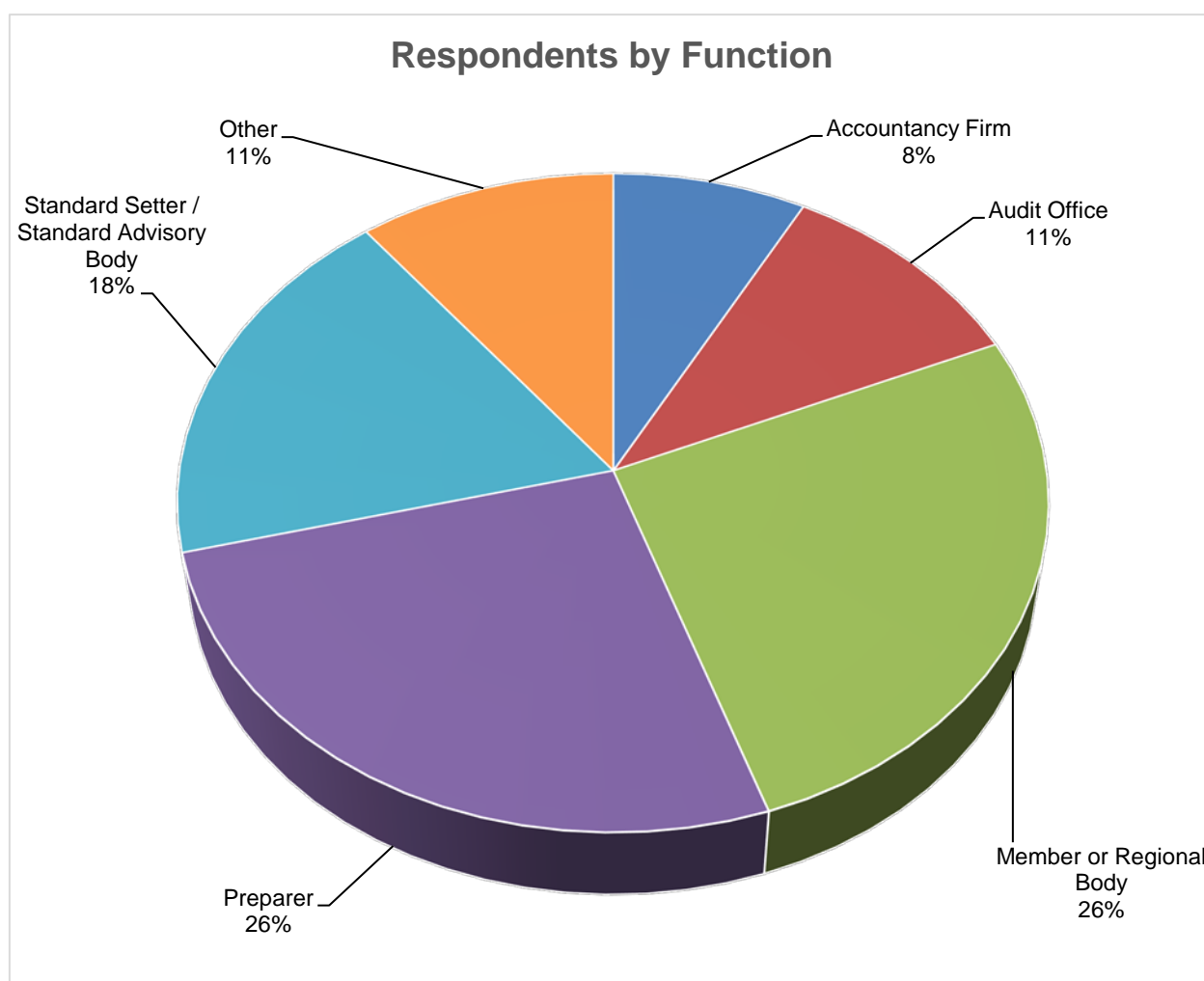
Geographic Breakdown

| Region | Respondents | Total |
|---------------------------------|--|-----------|
| Africa and the Middle East | 08, 16, 19, 24 | 4 |
| Asia | 15, 17, 29, 35 | 4 |
| Australasia and Oceania | 01, 02, 03, 04, 06, 10, 11, 12, 25, 33 | 10 |
| Europe | 07, 13, 14, 18, 20, 21, 23, 26, 27, 28, 30, 31, 32, 34, 37 | 15 |
| Latin America and the Caribbean | 22 | 1 |
| North America | 36, 38 | 2 |
| International | 05, 09 | 2 |
| Total | | 38 |



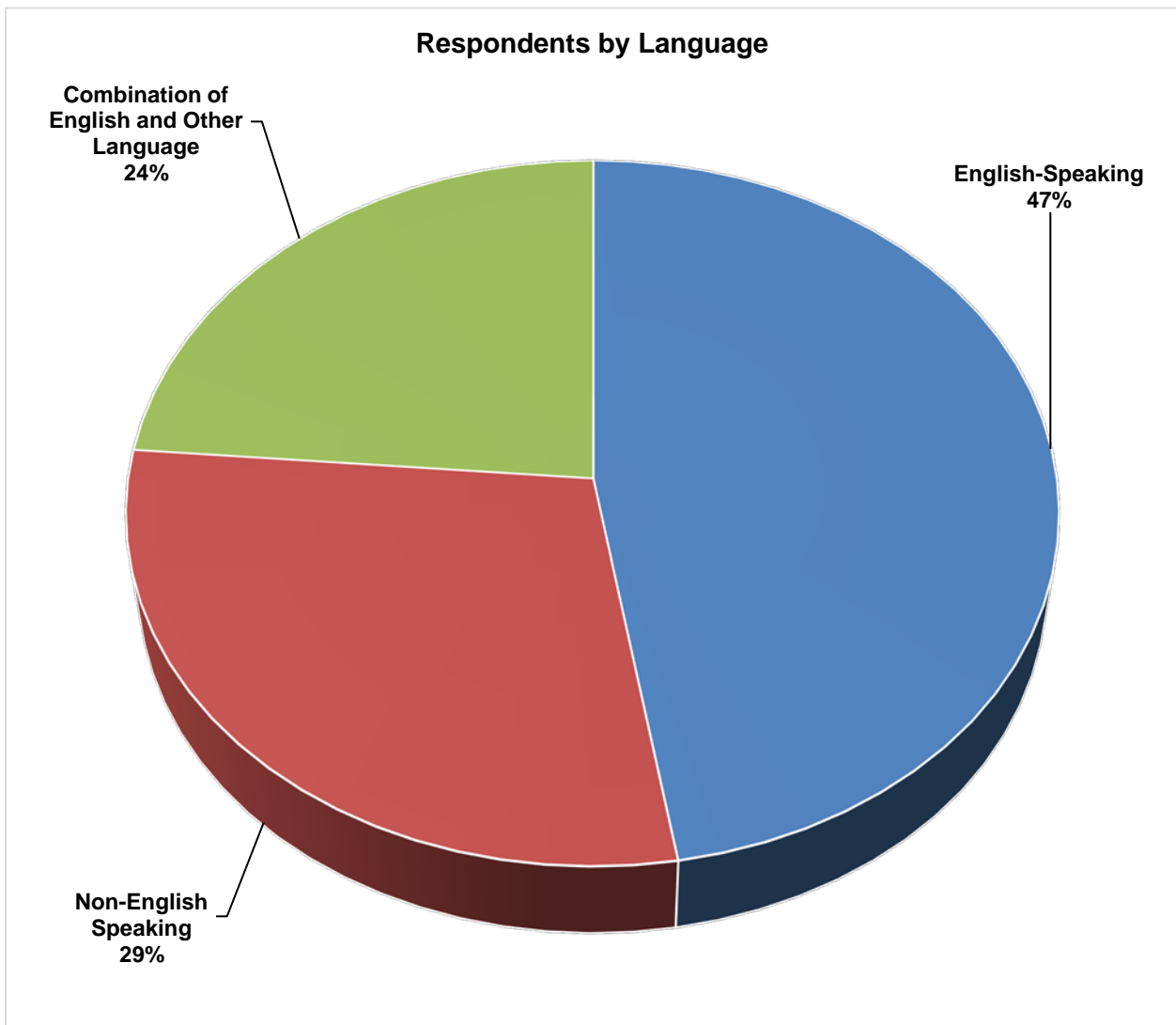
Functional Breakdown

| Function | Respondents | Total |
|--|--|-----------|
| Accountancy Firm | 19, 26, 32 | 3 |
| Audit Office | 25, 30, 33, 38 | 4 |
| Member or Regional Body | 07, 11, 15, 16, 20, 21, 22, 27, 29, 35 | 10 |
| Preparer | 01, 02, 03, 04, 06, 09, 12, 28, 34, 37 | 10 |
| Standard Setter / Standard Advisory Body | 08, 10, 13, 17, 24, 31, 36 | 7 |
| Other | 05, 14, 18, 23 | 4 |
| Total | | 38 |



Linguistic Breakdown

| Language | Respondents | Total |
|---|--|-----------|
| English-Speaking | 01, 02, 03, 05, 06, 08, 10, 11, 12, 18, 19, 21, 23, 24, 25, 27, 33, 38 | 18 |
| Non-English Speaking | 13, 15, 17, 20, 22, 28, 30, 31, 32, 35, 37 | 11 |
| Combination of English and Other Language | 04, 07, 09, 14, 16, 26, 29, 34, 36 | 9 |
| Total | | 38 |



LIST OF RESPONDENTS

| Response # | Respondent Name | Country | Function |
|------------|---|--------------------------|--|
| 01 | NZ On Air | New Zealand | Preparer |
| 02 | Unicef New Zealand | New Zealand | Preparer |
| 03 | New Zealand Film Commission | New Zealand | Preparer |
| 04 | Te Māngai Pāho (Maori Broadcasting Funding Agency) | New Zealand | Preparer |
| 05 | International Consortium on Governmental Financial Management (ICGFM) | Regional / International | Other |
| 06 | Whanganui District Health Board | New Zealand | Preparer |
| 07 | Accountancy Europe | Regional / International | Member or Regional Body |
| 08 | Staff of the Accounting Standards Board (SA) | South Africa | Standard Setter / Standard Advisory Body |
| 09 | ITER Organization | Regional / International | Preparer |
| 10 | External Reporting Board (XRB) of the New Zealand Accounting Standards Board (NZASB) | New Zealand | Standard Setter / Standard Advisory Body |
| 11 | Chartered Accountants Australia and New Zealand (CAANZ) | Australia | Member or Regional Body |
| 12 | Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) | Australia | Preparer |
| 13 | Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor (SRS) | Switzerland | Standard Setter / Standard Advisory Body |
| 14 | Task Force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII | Regional / International | Other |
| 15 | Japanese Institute of Certified Public Accountants (JICPA) | Japan | Member or Regional Body |
| 16 | Institute of Chartered Accountants of Nigeria (ICAN) | Nigeria | Member or Regional Body |
| 17 | Government Accounting and Finance Statistics Center (GAFSC) at the Korea Institute of Public Finance (KIPF) | Korea | Standard Setter / Standard Advisory Body |
| 18 | Kalar Consulting | United Kingdom | Other |
| 19 | KPMG (SA) | South Africa | Accountancy Firm |
| 20 | Institut der Wirtschaftsprüfer (IDW) | Germany | Member or Regional Body |
| 21 | Chartered Institute of Public Finance and Accountancy (CIPFA) | United Kingdom | Member or Regional Body |

List of Respondents
IPSASB Meeting (March 2018)

| Response # | Respondent Name | Country | Function |
|------------|---|--------------------------|--|
| 22 | Conselho Federal de Contabilidade (CFC) | Brazil | Member or Regional Body |
| 23 | Ichabod's Industries | United Kingdom | Other |
| 24 | Public Sector Accounting Standards Board (PSASB) | Kenya | Standard Setter / Standard Advisory Body |
| 25 | Audit New Zealand | New Zealand | Audit Office |
| 26 | PricewaterhouseCoopers (PwC) | Regional / International | Accountancy Firm |
| 27 | Institute of Chartered Accountants in England and Wales (ICAEW) | United Kingdom | Member or Regional Body |
| 28 | Austrian Federal Ministry of Finance | Austria | Preparer |
| 29 | Institute of Chartered Accountants of India (ICAI) | India | Member or Regional Body |
| 30 | Comité consultatif sur la normalisation des comptes publics, Cour des Comptes | France | Audit Office |
| 31 | Conseil de Normalisation des Comptes Publics (CNoCP) | France | Standard Setter / Standard Advisory Body |
| 32 | Ernst & Young GmbH | Germany | Accountancy Firm |
| 33 | Australasian Council of Auditors-General (ACAG) | Australia | Audit Office |
| 34 | European Commission | Regional / International | Preparer |
| 35 | Malaysian Institute of Accounting | Malaysia | Member or Regional Body |
| 36 | Staff of the Public Sector Accounting Board (PSAB) | Canada | Standard Setter / Standard Advisory Body |
| 37 | Direction Générale des Finances Publiques (DGFIP) | France | Preparer |
| 38 | U.S. Government Accountability Office | United States of America | Audit Office |

Agenda Item

10.3.1

Revenue Transactions with Performance Obligations – Category C and Category B

Question

1. The IPSASB is asked to note the issues raised by respondents about how to account for Category C and Category B transactions (as described in the [CP at paragraph 3.3](#)) and to provide staff with direction about how to address these issues at the June 2018 meeting.

Detail

2. The CP included two preliminary views (PVs) regarding Category C and Category B transactions.

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.

3. There was clear support to PV 1 that Category C transactions should be accounted for using an IPSAS based on IFRS 15 but adapted where necessary.

| Response | Number of Responses | % of Responses |
|--------------------|---------------------|----------------|
| Agree | 25 | 66% |
| Partially Agree | 7 | 18% |
| Disagree | - | - |
| Response Not Clear | - | - |
| No Comment | 6 | 16% |
| Total | 38 | 100% |

4. The respondents that agreed with the PV made comment that it was logical (05) and convergence should be pursued as it aids jurisdictions with mixed groups (07), (18). However, they cautioned that due consideration will have to be given as to how IFRS 15 is adapted for the public sector including:
 - (a) Identifying the customer;
 - (b) Determining what is a binding arrangement;

- (c) Clearly defining a performance obligation;
- (d) Establishing appropriate enforcement mechanisms;
- (e) Calculating the amount of consideration; and
- (f) How to account for Construction contracts in the public sector (08).

Staff Comment

5. Staff acknowledges that adapting IFRS 15 for the public sector will be challenging and will take into consideration the work of other standard-setters to ascertain what changes have been made in other jurisdictions.
6. Of the respondents that partially agreed with PV 1 a predominant theme was that there may be difficulty in determining which transactions would be classified as category B or C – and that there may not be a need to draw such a distinction. Consideration could be given to accounting for transactions on the basis of whether or not there is a performance obligation (07) (08) (10) (11) (15) (25) (33) (36). Similar comments were made in response to PV 3 by respondents (07) (10) (11) (15) (27) (33) (36).

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.

7. Even though there was not as much support for adopting a Public Sector Performance Obligation Approach (PSPOA) as there was for replacing IPSAS 9 and 11 with an IPSAS based on IFRS 15 the majority of respondents did support adopting a PSPOA.

| Response | Number of Responses | % of Responses |
|--------------------|---------------------|----------------|
| Agree | 19 | 50% |
| Partially Agree | 5 | 13% |
| Disagree | 7 | 18% |
| Response Not Clear | 1 | 3% |
| No Comment | 6 | 16% |
| Total | 38 | 100% |

8. The issues raised in the comments made by respondents were as follows:

From respondents that agreed

- (a) It will 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) (07);

- (b) Adopt the concept of a performance obligation (IFRS 15) rather than the concept of a condition (09);
- (c) If an updated IPSAS 23 were applied to Category B transactions, issues of ambiguity in making the exchange/non-exchange determination would still remain unresolved. Even if additional guidance were provided for IPSAS 23, entities would still have to go through the process of exchange/non-exchange determination each time (15);
- (d) Preparers may have difficulty in identifying binding arrangements and performance obligations effectively, therefore the IPSASB may need to come up with an alternative approach in such cases (17);
- (e) The IPSASB should provide more guidance in cases in which there are not three parties involved, but that can fall within the PSPOA, e.g. taxes collected that are tied to a specific use, such as public lighting (22);
- (f) 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 (24);
- (g) We encourage the IPSASB to further define the types of transactions within Category B and provide examples of application of the PSPOA to these transactions (26);
- (h) 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 (27);
- (i) The performance obligation approach conceptually fits better the principle of substance over form than conditions or restrictions that are more of a legal nature (31) (37).

From respondents that partially agreed

- (j) We recommend that the IPSASB undertake an assessment on whether a PSPOA will resolve the issues experienced under the current exchange/non-exchange model, before concluding on this PV, 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 (08);
- (k) A broader notion of 'performance obligations' needs to be developed (see SMC 2) (25);
- (l) 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. 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 (25);
- (m) The IPSASB could reconsider the current conditions/restrictions approach of IPSAS 23 as well as the accounting for transfers with timing requirements (32);

From those respondents that disagreed

- (n) 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 (06);
- (o) 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 (10);
- (p) 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 (10);
- (q) The PSPOA is an interesting approach however we have doubts whether this approach could help to overcome the existing delineation problems. We are of the opinion that Category B transactions can continue to be classified as exchange or non-exchange. One could also supplement the definition by considering whether the transaction is 'with performance' or 'without performance'. This would make the distinction clearer (13);
- (r) The 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 emphasized. 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 (14);
- (s) 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 (14);
- (t) In principle the PSPOA is plausible however we disagree with PV 3 because the PSPOA is a modified form of IFRS 15 which already comes with a lot of complexities, especially in identifying the appropriate elements of the five-step requirements. Further it is unclear whether the PSPOA will provide the necessary information to meet the objectives of financial reporting in the public sector (19);
- (u) 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 (29);
- (v) '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 (29);
- (w) 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 (38);

Other respondent comments

- (x) 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 (28); and
- (y) 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. (35).

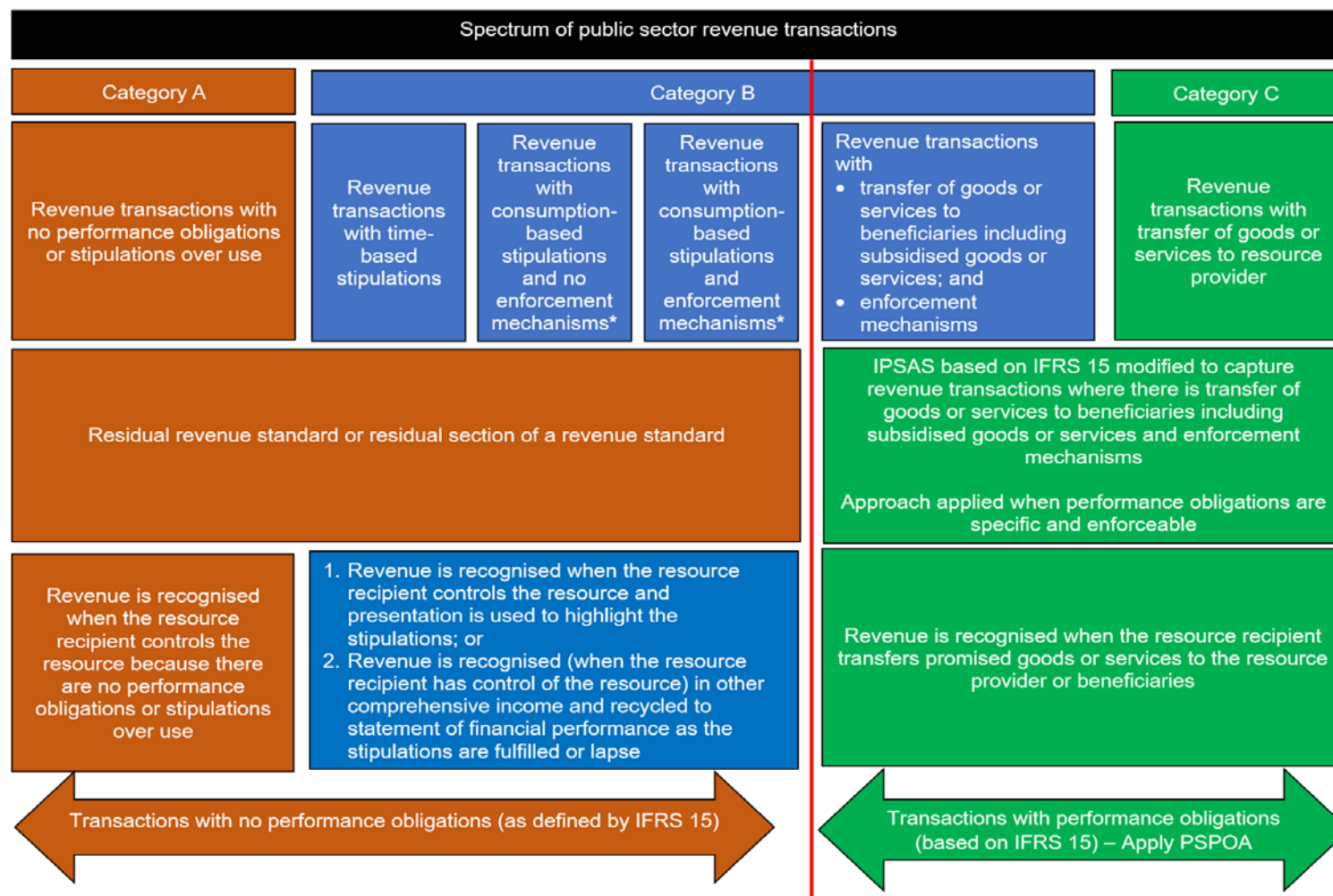
Staff comments

- 9. As indicated by the responses to PV 1 and PV 3 quite a number of respondents consider that all transactions with performance obligations should be accounted for under one IPSAS. This would mean converging with IFRS 15 but then making the necessary modifications to capture other transactions with performance obligations that do not fit within a strict IFRS 15 model.
- 10. However, there are also respondents that consider an exchange/non-exchange approach should be used for Category B transactions, while agreeing that an IFRS 15 approach is appropriate for Category C transactions.
- 11. Staff are of the view that the issue of time requirements may have created confusion because the model provided in the CP included transactions into Category B even though there was some uncertainty as to whether a time requirement could be classified as a performance obligation.
- 12. Staff note that Respondent 10 (XRB) proposed a model based on whether or not a transaction has a performance obligation. For Board information this model is provided in the attached Appendix.
- 13. Staff consider that the comments in relation to development of one standard to encompass all transactions that contain performance obligations has merit and should be given due consideration. This would remove the exchange/non-exchange distinction from Category B and C transactions (as indicated in the CP) and the determining factor for transactions would be whether or not they have a performance obligation(s) not whether it is an exchange or non-exchange transaction.

Questions for the Board

- 14. Given the comments by respondents to PV 1 and PV 3 regarding only having one standard for transactions with performance obligations (i.e. combining Category B and C transactions) does the Board want staff to explore the issues and bring back a proposal to the June 2018 meeting?
- 15. Does the Board have any other comments regarding constituent responses to PV 1 and PV 3?

Appendix



1

¹ 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.

Agenda Item

10.3.2

Modifying the IFRS 15 five-steps for Category B transactions

Question

1. The IPSASB is asked to note the issues raised by respondents regarding proposals made in the CP as to how the IFRS 15 five-steps could be broadened for use in a PSPOA for Category B transactions.

Detail

2. The CP asked one SMC regarding modifying the IFRS 15 five-steps for use in a PSPOA for Category B transactions.

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.

3. Between the respondents that agreed and partially agreed, there was clear support for the proposals made in the CP.

| Response | Number of Responses | % of Responses |
|--------------------|---------------------|----------------|
| Agree | 20 | 53% |
| Partially Agree | 8 | 21% |
| Disagree | 2 | 5% |
| Response Not Clear | - | - |
| No Comment | 8 | 21% |
| Total | 38 | 100% |

4. Comments made by respondents on each of the five steps are provided below.

Step 1 – Identify the binding arrangements

5. We agree with the broader concept of enforceability ... but we do not agree that it would be appropriate, for example, to extend this to moral obligations (10).
6. 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) (10).
7. The IPSASB should 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 (12).
8. Binding arrangements in a public sector referred to in the CP should be limited to those with resource providers (15).
9. Sufficient flexibility will be needed in assessing whether or not a binding arrangement exists. Guidance – possibly along the lines of para. 4.32 – will be needed to support preparer judgments needed in this regard (20).
10. A clear definition of a binding arrangement and extensive guidance on how it should be identified should be provided (08).
11. We note the withdrawal of future funding is cited as establishing enforceability – we do not agree with this proposal and argue that this factor does not establish a performance obligation (33).

Step 2 – Identify the performance obligation

12. 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 (08) (10).
13. 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 (11).
14. Need to clarify whether transactions with time requirements (a stipulation) are in Category A or Category B. We consider they should be Category A because a time requirement in itself does not create a performance obligation (10) (15) (36).
15. 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 (25) (26) (27).

16. Identifying a performance obligation leads to better accounting and is more practicable than the existing exchange/non-exchange distinction (28).
17. In the public sector the specificity of goods or services promised may vary greatly, therefore it is crucial to develop criteria to determine distinct goods or services. The criteria 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 (36).

Step 3 – Identifying the consideration

18. Identifying the consideration could be problematic where the agreement is not for a specified amount, but includes variable consideration. Sufficient guidance would need to be provided on how the amount of variable consideration should be identified and calculated (08).

Step 4 – Allocate the consideration

19. The cost of fulfilment can be difficult to determine, this is because it 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 (08).
20. 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 (08).

Step 5 – Recognize revenue

21. The phrase “when (or as) the public sector entity fulfils its performance obligations” is intended as the public sector equivalent of the IFRS terms of “satisfaction of a performance obligation” and “transfer of control” In our opinion further clarification of the criteria to determine the principle of “fulfilling a performance obligation” will be needed (20).

Other comments

22. 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 (14).
23. Some respondents (10) (12) (33) have referred to the standards completed by the Australian Accounting Standards Board) which have adopted IFRS 15 for for-profit entities (AASB 15, *Revenue from Contracts with Customers*) and then extended the IFRS 15 requirements to suit not-for-profit entities (both the public and private sectors) (AASB 1058, *Income of Not-for-Profit Entities* and AASB 2016-8, *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*).

Staff comments

24. As noted in Agenda Item, 10.3.1, staff acknowledge that adapting the IFRS 15 five-step approach for use in the public sector will be challenging and anticipate that reference to the work of other standard-setters will be invaluable.
25. Assuming that the Board agrees to proceed with a PSPOA, staff are also of the view that regardless of whether the Board decides to develop one or two standards for transactions with performance obligations the IFRS 15 five-steps will need to be broadened to suit those transactions that do not meet all the criteria in IFRS 15.
26. Staff consider that the key areas, identified by respondents, that need to be addressed when adapting the IFRS 15 five-steps for a PSPOA are:
 - (a) Methods of enforceability within the public sector;
 - (b) Tripartite arrangements;
 - (c) What constitutes a binding arrangement;
 - (d) What is a performance obligation; and
 - (e) Determining and allocating the consideration.

Question for the Board

27. Does the Board agree that staff have identified the main issues related to broadening the IFRS 15 five-steps?
28. Are there any other issues the Board would like to consider when developing proposals for how the five steps should be broadened for use in the public sector?

Agenda Item

10.3.3

Revised IPSAS 23 – Category A transactions

Question

1. The IPSASB is asked to note the issues raised by respondents in regards to PV 2 and SMC 1 in regards to revising IPSAS 23 to account for Category A transactions.

Detail

2. The CP asked one PV and one SMC in regards to revising IPSAS 23 to account for Category A transactions.

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.

3. There was overwhelming support that an updated IPSAS 23 should be developed to account for Category A transactions, which are those without performance obligations or stipulations.

| Response | Number of Responses | % of Responses |
|--------------------|---------------------|----------------|
| Agree | 27 | 71% |
| Partially Agree | 4 | 11% |
| Disagree | - | - |
| Response Not Clear | - | - |
| No Comment | 7 | 18% |
| Total | 38 | 100% |

4. Even though all respondents either agreed, partially agreed or did not comment on PV 2 (no respondents disagreed with the Board's view) a number of comments were made regarding the proposed standard, these comments are as follows.
5. It is important to consider the impact the changes to IPSAS 23 may have on how an entity classifies its transactions. Some of the transactions that were previously classified as non-exchange and within the scope of IPSAS 23 could have performance obligations and will therefore be outside the scope of an amended IPSAS 23 (08).
6. Some respondents commented that they disagreed with the categorization of revenue transactions into Category A, B and C and consider that transaction should be classified as to whether they have a performance obligation or not rather than if they were exchange or non-exchange (10) (11).

7. Along these lines, Respondent (10) proposed an alternative revenue recognition framework (see Agenda Item 10.3.1) to that presented in the CP and in their model the distinction between revenue transactions would be on whether the transaction had a performance obligation or not, not on whether it was classified as exchange or non-exchange. This model would also remove the distinction between conditions and restrictions.
8. Respondent (19) commented that if there was more than one standard there may be issues with scope and definitions and further an objective for the project, to eliminate the exchange/non-exchange distinction, may not be achieved. They recommended that the IPSASB update IPSAS 23 to main the important principles of that IPSAS. They further commented that it would be ideal if all revenue could be addressed in a single standard using the same principles, however acknowledged that it may be difficult to cover IFRS 15 transactions and “non-exchange” transactions in a single standard.
9. Comment was made by Respondents (20) and (26) that it is the substance of the transaction rather than how it is labelled (the form) that is the driver for the recognition method.
10. Assuming a performance obligation 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 (36).
11. Some transactions that are classified as Category B in the CP would need to be classified as Category A for example those transactions with time requirements (10) (15).
12. 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 PSPOA based on IFRS 15. An updated IPSAS 23 should focus on the ability to measure reliably the amount of taxes and on the consequences on the timing of recognition. This is an area of wide implantation issues across jurisdictions where preparers need detailed guidance (27) (31) (37).
13. While updating IPSAS 23, the 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 (24).

Staff Comments

14. Staff are of the view that there is some confusion as to whether a revised IPSAS 23 would retain a non-exchange classification if a PSPOA was also introduced. This is understandable because the CP was not entirely clear on how IPSAS 23 would be revised for transactions without performance conditions or stipulations. However, staff consider (and some respondents indicated) that maintaining both a performance obligation distinction, for Category B and C and a non-exchange distinction, for Category A transactions, would be problematic as it would require preparers to decide both whether a transaction has a performance obligation and whether it is non-exchange.
15. Staff are attracted to the view of several respondents that if a PSPOA is adopted, then transactions should be classified on the basis of whether or not a performance obligation exists. This would then resolve the difficulty of having to make exchange/non-exchange judgement as it wouldn't exist.

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

- 16. Twenty-three respondents commented on SMC 2, ten agreed that additional guidance was required on social contributions, 14 agreed that additional guidance was required on taxes with long collection periods and 12 provided comments on other issues with IPSAS 23.
- 17. In addition respondents were asked to identify any further areas where an updated IPSAS 23 needed guidance. The attached Appendix provides a list of comments made, and staff will revisit these comments when developing a revised IPSAS 23.

Question for the Board

- 18. Assuming the Board decides to adopt a performance obligation approach for Category B and Category C transactions (either as one or two standards - see Agenda Item 10.3.1) does the Board wish to retain the exchange/non-exchange distinction for a revised IPSAS 23, or should a revised IPSAS 23 be for revenue from transactions without a performance obligation?
- 19. Are there any other issues the Board wants staff to consider in a revised IPSAS 23?

Other Issues with IPSAS 23

1. Comments made by respondents on 'other issues' where IPSAS 23 requires further guidance are as follows:
 - (a) Use of statistical models to recognize tax revenues based on the taxable event (32);
 - (b) Where there is a separation between the timing of the taxable/social contribution event and the collection of taxes/social contributions (32);
 - (c) Accounting for revenue that has the legal form of a tax but is really a payment for goods or services (e.g. water rates) (26);
 - (d) Whether granting of licences is licence revenue, a tax or revenue for the delivery of goods and services (and under what circumstances) (10) (26)
 - (e) Clarify how property taxes should be accounted for (at one time or over time) and under what circumstances (10) (26);
 - (f) Accounting for social contributions (26) (32);
 - (g) Guidance in accounting for expenses paid through the tax system and tax expenditures (22);
 - (h) Distinction between revenue from non-exchange transactions and equity contributions from owners is unclear (09);
 - (i) Treatment of appropriations – revenue or capital contribution (10);
 - (j) Non-monetary grants (e.g. provision of employees, premises or real estate) (13);
 - (k) Taxes and fines with short collection periods (14);
 - (l) Financial support provided on non-arms-length terms (concessionary loans, release of loan repayment, and giving of guarantees to third party financiers) (14);
 - (m) Treatment of counterpart funds (revenue or liability) (16);
 - (n) Determining when a receivable asset arises under a grant agreement (25);
 - (o) Difficulty with recognizing revenue bases on restriction or conditions (32);
 - (p) Difficulty in applying the matching principle (32);
 - (q) Provide additional guidance for consolidation procedures regarding IPSAS 23 – from higher level to lower level entities (32);
 - (r) Transactions that include both an exchange component and a non-exchange components, (e.g. university fees where a degree is received but the amount paid by the student is only a small portion of the total cost to taxpayers (11);
 - (s) Determining whether a provision in law, regulation or other arrangement is enforceable through legal or administrative process, and thus is in fact a stipulation (restriction or condition) (11); and
 - (t) Clarification whether 'deferred collection of taxes' differs from 'taxes with long collection period' – both terminologies have different connotations (29).

Agenda Item 10.3.4

Revenue Transactions with Time Requirements and Provision of Guidance on Exchange/Non-Exchange

Question

1. The IPSASB is asked to note the issues raised by respondents in reference to SMC 3 and SMC 4 regarding accounting for transactions with time requirements and provision of additional guidance on making the exchange/non-exchange distinction respectively.

Detail

2. The CP asked one SMC with options for accounting for revenue transactions with time requirements and one SMC regarding whether additional guidance should be provided for making an exchange/non-exchange distinction if a PSPOA approach for Category B transactions was not adopted.

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):

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.

3. There was no clear preference as to which option respondents preferred in regards to how IPSAS 23 could be revised for transactions with time requirements. But Option (e), recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance had the most support with 24% of respondents preferring this option.

| Response | Number of Responses | % of Responses |
|-----------------------------|----------------------------|-----------------------|
| Option (b) | 5 | 13% |
| Option (c) | 2 | 5% |
| Option (d) | 5 | 13% |
| Option (e) | 9 | 24% |
| Proposes Alternative Option | 2 | 5% |
| None of the Options | 1 | 2% |
| Response not Clear | 7 | 18% |
| No Comment | 7 | 18% |
| Total | 38 | 100% |

4. A wide variety of comments were received both in support and in opposition of each of the proposed options. Given that SMC 3 was asked in the event that the Board does not proceed with Approach 2 - a PSPOA for Category B transactions, staff have not provided the constituent comments here but will bring them back for discussion at the June 2018 meeting if the Board decides against adopting Approach 2 (see PV 3 at Agenda Item 10.3.1). For Board information Approach 1 was to maintain an Exchange/Non-Exchange approach.

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.

5. A majority of respondents agreed that guidance on making the exchange/non-exchange distinction should be provided if the Board proceeded with Approach 1 (the exchange/non-exchange approach).

| Response | Number of Responses | % of Responses |
|-----------------|----------------------------|-----------------------|
| Yes | 25 | 66% |
| No | 4 | 10% |
| No Comment | 9 | 24% |
| Total | 38 | 100% |

6. Again, as with SMC 3 above until the Board agrees which approach to use for Category B transactions – Approach 1 – Exchange/Non-Exchange or Approach 2 – PSPOA staff considered it premature to have this discussion at this meeting.

Staff comments

7. Whether or not guidance on making the exchange/non-exchange distinction is required will be dependent on which direction the Board takes regarding the approaches for revenue recognition as noted in Agenda Item 10.3.3. If the Board decides that all revenue transactions should be classified on a performance obligation/no performance obligation approach, guidance on making the exchange/non-exchange distinction will not be required.
8. Staff recommend that no work commence on developing guidance on making the exchange/non-exchange distinction until there is clear direction as to which approaches for revenue recognition the Board wishes to pursue.
9. However, staff considers that the issue of transactions with time requirements will still need to be addressed. Initially to determine if these transactions could be considered to have the features of a performance obligation (i.e. a Category B transaction) and therefore able to be accounted for under a PSPOA.
10. If it is determined that transactions with time requirements do not have the features of a performance obligation, and are therefore a Category A transaction, should an updated IPSAS 23 be further revised to alleviate the issues identified in the CP such as immediate revenue recognition?
11. Staff anticipate bringing back an issues paper on transactions with time requirements at a future meeting.

Question for the Board

12. Does the Board agree with the staff recommendation made at paragraph 8?
13. Does the Board have any comments regarding transactions with time requirements?

Agenda Item

10.3.5

Accounting for Capital Grants

Question

1. The IPSASB is asked to note the issues raised by respondents regarding accounting for capital grants and the issues associated with those types of grants.

Detail

2. The CP included one PV and one SMC regarding capital grants.

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.

3. There is overwhelming support for explicitly addressing accounting for capital grants within IPSAS.

| Response | Number of Responses | % of Responses |
|--------------|---------------------|----------------|
| Yes | 30 | 79% |
| No | 1 | 3% |
| No Comment | 7 | 18% |
| Total | 38 | 100% |

4. The key issues raised in the comments made by respondents were as follows:
 - (a) Currently IPSAS 23 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. This distinction is already made in IAS 20 and GFS (09);
 - (b) We recommend considering the Australian guidance of paragraph 15 of AASB 1058 (12);
 - (c) 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 (36); and
 - (d) 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." (15).

Staff comments

5. Staff agree that capital grants should be addressed specifically within IPSAS but are unsure whether capital grants are considered to be Category A or Category B transactions and are of the view that categorization may be dependent on the details of each particular capital grant agreements. In addition staff are also aware that due to a lack of 'transfer of goods or services' within capital grants, PSPOA may be problematic and will give due consideration to the work of other standard-setters in this area.

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.

6. Respondents were asked in SMC 5 whether all this issues with capital grants had been issued and if not what other issues were there. The SMC further asked if respondents had any proposals on accounting for capital grants.
7. Staff have analysed the responses separately – 5(a) and 5(b).

SMC 5(a) – All Issues with Capital Grants Identified

| Response | Number of Responses | % of Responses |
|-------------------------|---------------------|----------------|
| Yes | 16 | 42% |
| No | - | - |
| Not Clear | - | - |
| Other issues Identified | 12 | 32% |
| No Comment | 10 | 26% |
| Total | 38 | 100% |

8. Some of the comments regarding issues not identified are as follows:
- (a) The CP does not in our view discuss problems with regards to the matching principle and accounting for capital grants. We would encourage the IPSAS to discuss the possibility of accounting for other obligations/other resources or deferred inflows/deferred outflows respectively in that context (32);
- (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) (13);
- (c) 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 the scope of IFRS 15. [respondent refers to grant treatment under AASB 1058] (11);

- (d) We suggest 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 (08);
- (e) There is an issue of determining whether capital grants are revenue transactions or capital transactions, referred to as ownership contributions. (15) (20);
- (f) 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. Identifying and completing these for intra-group eliminations for the government's consolidated account presented many issues (18);
- (g) The IPSASB should consider capital grants from the grantor's perspective (31) (37); and
- (h) One 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 (38).

Staff comments

- 9. As noted above, staff are aware of the challenges associated with accounting for capital grants and when developing proposals will consider the issues raised above by constituents.

SMC 5(b) – Proposals for Capital Grant Accounting

- 10. Twenty-one respondents made comment on possible grant accounting. A summary of comments are as follows:
 - (a) We support mirroring the capital grants treatments in accordance with IAS 20 *Government Grants and Disclosure of Government Assistance* under IPSAS (07) (24) (26);
 - (b) As capital grants are intended for capital projects, the IPSASB could consider a revenue recognition model similar to the model that will be applied to construction contracts (08);
 - (c) We recommend the IPSASB considers a presentation and OCI approach for accounting of capital grants (10);
 - (d) The definition of a performance obligation should be broadened so that the capital grants could be accounted for using the PSPOA (11) (12) (25) (33);
 - (e) A variation of IAS 20 where the deferred capital grant is not recognised as a liability but as a 'Capital Grant Fund' as part of net asset/equity and the alternative approach of IAS 20 is not permitted (14);
 - (f) 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 (15);

- (g) 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 (25);
- (h) Grant income should be accounted for in the same way as other revenue – if received without any conditions recognise as revenue, if there are conditions record a liability until these have been satisfied (27); and
- (i) We recommend the IPSASB consider the accounting treatment for grants based on the IFRS for SMEs (35).

Staff comments

- 11. Although suggested by several respondents ((07) (14) (24) and (26)), staff do not consider that adopting an approach to similar to IAS 20 appropriate. It is widely acknowledged that IAS 20 is conceptually flawed and the IASB periodically considers revising this standard. Therefore staff do not recommend that the Board consider adopting this accounting.
- 12. However, considering the approach taken for accounting for grants within IFRS for SMEs (27) does have some appeal as this Standard utilises a performance condition approach.
- 13. Staff also agree that the work of the AASB (25) should be considered when developing an approach for accounting for capital grants.

Question for the Board

- 14. Does the Board have any views on how capital grants are to be accounted for and is there any particular path the Board wishes staff to explore?
- 15. Does the Board have any comments on the remarks made by constituents above regarding other issues identified with accounting for capital grants?
- 16. Does the Board have any comments on the remarks made by constituents or staff regarding proposals for accounting for capital grants?

Agenda Item

10.3.6

Accounting for Services in-kind

Question

1. The IPSASB is asked to note the responses raised by constituents regarding accounting for services in-kind.

Detail

2. The CP included one SMC regarding options for accounting for services in-kind.

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 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 favour an alternative approach, please identify that approach and explain it.

3. There was no clear preferred option for accounting for services in-kind although there was a greater preference for modifying the existing requirements (Option B above) than for any other option.

| Response | Number of Responses | % of Responses |
|-----------------------|---------------------|----------------|
| Existing Requirements | 7 | 18% |
| Modify Requirements | 12 | 32% |
| Alternative Approach | 9 | 24% |
| Response not Clear | 2 | 5% |
| No Comment | 8 | 21% |
| Total | 38 | 100% |

4. Comments made on each option are provided below.

Option (a) - retain existing requirements

5. The existing requirements allows entities the choice as to whether they recognize services in-kind, entities would do so if the benefits outweigh the costs. If recognition of services in-kind were mandated entities would have to develop systems and processes to gather auditable information. The IPSASB could consider mandating the disclosure in IPSAS 23 paragraph 108 to improve financial reporting in this area (10) (15) (25).

Option (b) – Modify requirement to recognise services in-kind that meet the definition of an asset

6. Services in-kind can make up a significant portion of an entity's operating activity, not measuring this could considerably understate the size of the organizations operation and its significance to the economy for all stakeholders and decision makers. We suggest a differential reporting approach to ensure the cost of measurement does not outweigh the benefit (06).
7. We suggest that where services received in-kind do not meet the criteria to be recognized, it may be appropriate to require entities to disclose information about the nature and type of services received. (08).
8. 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 (08).
9. We consider that where volunteer goods or services are fundamental to enabling an entity to meet its objectives and the loss of those 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 (33).

Option (c) – An alternative approach

10. We suggest only recognising 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 (07).
11. 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 (e.g. essential services such as ambulance and fire) (11).
12. A possible alternative approach 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 (14).

13. 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). 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) (20).
14. The IPSASB may consider prescribing an alternative to record services in-kind at nominal value (symbolic value) of currency unity, with a detailed disclosure for the services in the notes to financial statements (29).
15. 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 (32).

Staff comments

16. Staff acknowledge that for some jurisdictions services in-kind are a major resource while in others not so much. Further accounting for services in-kind is difficulty particularly regarding measurements and determining if an entity has control of the resource.

Question for the Board

17. Does the Board have any comments on the responses from constituents above or any direction for staff regarding services in-kind?