

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Kuala Lumpur, Malaysia

Meeting Date: December 4–7, 2018

From: Joanna Spencer

Agenda Item 11

For:

☐ Approval

☒ Discussion

☒ Information

GRANTS AND TRANSFERS – TIME REQUIREMENTS

Project summary	<p>Revenue</p> <p>The aim of the project is to develop one or more IPSAS covering revenue transactions (exchange and non-exchange) in IPSAS.</p> <p>The scope of this project is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently located 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	Decisions up to September 2018 Meeting	11.1.1
	Instructions up to September 2018 Meeting	11.1.2
	Revenue Project Roadmap	11.1.3
Discussion Items	Revenue - Update of IPSAS 23 – Transactions with Time Requirements	11.2.1

DECISIONS UP TO SEPTEMBER 2018 MEETING

Date of Decision	Decision
September 2018	The Board decided to accept the proposed “Amendments to Other IPSAS”.
September 2018	The Board decided that legislation and the ability to reduce future funding should be included as potential enforcement mechanisms for the PSPOA.
September 2018	The Board decided to replace “commercial substance” with “economic substance”
September 2018	The Board decided to remove the term, “ordinary” and explore the scope to identify whether items such as gains on sale of property, plant and equipment, foreign exchange gains, and interest are within the scope of the draft Standard.
September 2018	The Board decided to retain the methods used to estimate stand-alone selling price and add explanatory text, stating that, where appropriate, the Expected Cost plus Margin approach is also applicable to goods and services that are provided on a cost-recovery basis.
September 2018	The Board decided to retain the terms, “Goods and Services”.
September 2018	The Board decided to retain the terms, “Consideration” and “Exchange”.
September 2018	The Board decided to replace the terms, “Contract Asset” and “Contract Liability” with the terms “Binding Arrangement Asset” and “Binding Arrangement Liability”.
September 2018	The Board decided to use the term, “Binding Arrangement”, which will encompass the terms, “Contract” and “Other Binding Arrangements”.
June 2018	The Board decided that the requirements for accounting for revenue from social contributions should adopt the same principles as for taxation revenue.
June 2018	The Board decided that, in dealing with Category C revenue transactions, there are no major public sector issues that warrant departure, after considering the alignment with IFRS 15, <i>Revenue from Contracts with Customers</i> .
June 2018	The Board decided to retain the term “Fair Value” until the project on Public Sector Measurement is concluded.
June 2018	The Board decided to approve the terminology changes, and, with some clarifications, the definitions.
June 2018	The Board decided to proceed with the PSPOA for appropriate transactions that were classified as Category B in the Consultation Paper, <i>Accounting for Revenue and Non-Exchange Expenses</i> .
June 2018	The Board decided not to change the existing recognition requirements for recognizing services in-kind in IPSAS 23, <i>Revenue from Non-Exchange Transactions (Taxes and Transfers)</i>
March 2018	The Board decided that IPSAS 23 should be updated.
March 2018	The Board decided to progress with a convergence project on IFRS 15, <i>Revenue from Contracts with Customers</i> .
June 2017	All decisions made up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .

INSTRUCTIONS UP TO SEPTEMBER 2018 MEETING

Meeting	Instruction	Actioned
September 2018	The Board instructed staff to provide options for the title of the draft Standard and show the benefits and disadvantages of these options.	To be addressed in March 2019.
September 2018	The Board instructed staff to consider the scope of the draft Standard and identify whether items such as Dividend Income, Gains on Sale of Property, Plant and Equipment (PPE), Foreign Currency Gains and Interest Income are within the scope.	Agenda Items <u>10.2.1</u> and Appendix A:[draft] Exposure Draft ED(XX), Revenue.
September 2018	The Board instructed staff to define the term, "Binding Arrangement", in the main text of the draft Standard and include explanatory text for the terms, "Contract" and "Other Binding Arrangements", in the Basis of Conclusions or Application Guidance.	Appendix A:[draft] Exposure Draft ED(XX), Revenue.
September 2018	The Board instructed staff to select either the umbrella term that encompasses the term, "Customer", or the use of the term "Customer" as the umbrella term and provide explanatory text in the Application Guidance or Basis of Conclusion.	Agenda Items <u>10.2.1</u>
September 2018	The Board instructed staff to add explanatory text in the Application Guidance or Basis of Conclusions that the "Expected Cost plus Margin Approach" is also applicable to goods and services that are provided on a cost-recovery basis.	Appendix A:[draft] Exposure Draft ED(XX), Revenue.
September 2018	The Board instructed staff to ensure consistency with other IPSAS and determine whether consequential amendments are necessary for the change of "commercial substance" to "economic substance".	To be discussed at a future meeting.
September 2018	The Board instructed staff to develop guidance on enforceability acknowledging that enforcement mechanisms may be jurisdictionally specific. Further, the guidance should demonstrate how these mechanisms would work.	To be discussed at a future meeting.
September 2018	The Board instructed staff to consider the New Zealand requirements for providing qualitative disclosures for entities that are reliant on services in-kind for their operations.	To be discussed at a future meeting.
September 2018	The Board instructed staff to redraft the section to explain the principles, using a generic term; which will avoid multiple references to "taxes and other compulsory contributions and levies" and prevent confusion over whether transactions are taxes or levies.	To be addressed in March 2019.
September 2018	The Board instructed staff to consider the Government Finance Statistics definitions of taxation and levies.	To be addressed in March 2019.

Agenda Item

11.1.2

Meeting	Instruction	Actioned
September 2018	The Board instructed staff to consider including Application Guidance that sets out which transactions are covered, noting the link to social contributions.	To be addressed in March 2019.
June 2018	The Board instructed staff to check the consistency of the use of the terms "Binding Arrangement or Other Binding Arrangements"	
June 2018	The Board instructed staff to check whether the difference in the definitions to the term "Binding Arrangements," as per IPSAS 32, <i>Service Concession Arrangement</i> and IPSAS 35, <i>Joint Arrangements</i> , is due to timing rather than due to substance, since IPSAS 32 was issued before publication of the Conceptual Framework, while IPSAS 35 was published after the Conceptual Framework.	
June 2018	The Board instructed staff to consider adding the terms, "Binding Arrangement Asset" and "Binding Arrangement Liability" to "Contract Asset" and "Contract Liability," respectively since governments may enter into contracts and/or binding arrangements.	
June 2018	The Board instructed staff to consider whether the definition of "Contract Asset" suits the context of the public sector since the definition of Contract Asset is the entity's right to consideration in exchange for goods or services that the entity has transferred to a customer.	
June 2018	The Board instructed staff to reconsider changing the term, "Customer" to suit the context of the public sector.	
June 2018	The Board instructed staff to consider swapping the order of "goods and services" to "services and goods."	
June 2018	The Board instructed staff to move the positioning of the definitions from the Appendices to the body of the standard.	
June 2018	The Board instructed staff to explore whether a reduction in future funding and government powers would be appropriate enforcement mechanisms.	
June 2018	The Board instructed staff to develop guidance to articulate the principle that the customer is the entity that directs and enforces delivery of goods and services.	To be discussed further at a future meeting.
June 2018	The Board instructed staff to consider replacing the term 'commercial substance' with 'economic substance'.	

Agenda Item 11.1.2

Meeting	Instruction	Actioned
June 2018	The Board instructed staff to develop guidance to articulate what 'distinct' would mean when identifying goods and services to be transferred in a performance obligation.	To be discussed further at a future meeting.
June 2018	The Board instructed staff to provide options on how wording and placement of encouragements to recognize or disclose services in-kind would appear in an updated IPSAS 23.	To be discussed further at a future meeting.
June 2018	The Board instructed staff to simplify the draft guidance provided by referring to tax and other compulsory levies.	
March 2018	The Board directed staff to reexamine respondent comments to the CP regarding services in-kind and to shape the arguments for each option.	
March 2018	The Board directed to conduct desk research on service in-kind to determine the requirements of other standard setters and also to investigate how not-for-profit entities (not restricted to the public sector) account for services in-kind.	
March 2018	The Board directed staff to further develop the Public Sector Performance Obligation Approach model complete with examples to test the model.	
December 2017	As part of the review of the Work Plan, the IPSASB instructed staff to consider revenue as three separate streams, <i>IFRS 15 Convergence</i> , <i>Updated IPSAS 23</i> and <i>Grants and other Transfers</i> .	
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.	
June 2017	All instructions provided up until June 2017 or earlier were reflected in the Consultation Paper, Accounting for Revenue and Non-Exchange Expenses .	

Agenda Item

11.1.3

REVENUE PROJECT ROADMAP

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

Agenda Item

11.2.1

Revenue - Update of IPSAS 23 – Transactions with Time Requirements

Questions

1. The IPSASB is asked to decide which option(s) for accounting for time requirements should be included in the [draft] exposure draft (ED) on Revenue.

Detail

Background

2. The Consultation Paper (CP), *Accounting for Revenue and Non-Exchange Expenses* indicated that there were a number of application issues with IPSAS 23, *Revenue from Non-Exchange Expenses (Taxes and Transfers)* and one of these issues was that IPSAS 23 is too restrictive in not allowing revenue to be recognized over time when funding received is intended to be used over a specific period of time.
3. IPSAS 23, indicates that some transfers are subject to stipulations, which are an expectation and/or understanding that the transfer will be used in a particular way and, therefore, the recipient entity will act or perform in a particular way. Transactions with stipulations are further divided into conditions and restrictions. Conditions specify that the transfer is to be used as specified by the transferor or is required to be returned. Whereas restrictions limit or direct the purposes for which the transfer may be used but there is no requirement to return to the transferor if not used as directed.
4. It was noted by a respondent to the CP that the requirements of IPSAS 23 have been interpreted differently in that:
 - (a) 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); and
 - (b) Other organisations 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 programs funded by those contributions.

This can result in a lack of comparability between entities.

5. Staff are aware of two issues of significant concern for preparers that arise from transactions with time requirements. Firstly is that if revenue that is intended to be used over a number of financial periods is recognized at the beginning of the first period then an entity may show a surplus in the Statement of Financial Performance for that first year and then a deficit in the following years. Although this can be communicated to users via a note disclosure, on the face of the financial statements it may be misleading.
6. The second issue is that if revenue is recognised immediately, the donor's intention – that the funds be used for a number of periods – is not communicated to the users of the financial statements. Again this can be addressed in the notes to the financial statements however, the face of the financial statements may be misleading.

7. When the CP was issued two approaches for accounting for transactions categorized as Category B were discussed. Approach 1 retained the exchange/non-exchange distinction and proposed updating IPSAS 23 to address transactions with time requirements. Approach 2 proposed using the Public Sector Performance Obligation Approach (PSPOA) for these transactions. The IPSASB's preliminary view was to adopt Approach 2 and this was supported by respondents to the CP.
8. At the June 2018 Board meeting the IPSASB decided to proceed with the PSPOA for transactions that had performance obligations however, discussions about the use of the PSPOA would probably not apply to transactions with time requirements as it is unlikely that this type of transaction would meet the requirements to be classified as a performance obligation and would therefore need to be addressed in an updated IPSAS 23.
9. The CP provided four options for addressing transactions with time requirements these are as follows:
 - (a) Require enhanced display and/or disclosure;
 - (b) Classify time requirements as a condition;
 - (c) Classify transfers with time requirements as 'other obligations'; or
 - (d) Recognize a transfer with time requirements in net assets/equity and recycle through the statement of financial performance.

Responses in more detail

10. At the March 2018 IPSASB meeting, staff presented a brief overview to the responses received to the CP and informed the Board that while there are no clear preferences from respondents as to which approach to take, Option (d) above gained the most support with 26% of respondents preferring this option.
11. The table below provides a numerical overview of respondent's preferences.

Option (as in paragraph 10 above)	Number of Responses	% of Responses
(a) Require enhanced display and/or disclosure	7	18%
(b) Classify time requirements as a condition	2	5%
(c) Classify transfers with time requirements as 'other obligations'	6	16%
(d) Recognize in net asset/ equity and recycle	10	26%
Proposes Alternative Option	2	5%
None of the options	1	3%
Response not clear	3	8%
No comment	7	18%
Total	38	100%

Note: this table has been amended from that presented at the March 2018 Board meeting – staff have reassessed the responses and recoded them as necessary.

12. The alternative options proposed by two respondents were as follows:
 - (a) Combine enhanced disclosure with recognizing a transfer with time requirements as an 'other obligation'; and

- (b) 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 – this respondent considered that IPSAS 23 applied a narrower definition of a liability than that in the Framework.
13. In reference to the first alternative option, staff are of the view that if either Option (c) or (d) are adopted then a note disclosure would be required because it is a departure from current practice.
14. Regarding the second suggested alternative approach, while staff recognizes that IPSAS 23 predates the Conceptual Framework, staff disagree that the application of a liability is narrower in IPSAS 23 than in the definition in the Framework. The Framework defines a liability as “A present obligation of the entity for an outflow of resources that results from a past event”. Whilst it is acknowledged that there is an inconsistency in practice, staff are of the view that IPSAS 23 would require a time requirement to be a restriction rather than a condition. Firstly because there is no specificity as to how the resources are to be used (i.e. there is no performance obligation which is inherent for a condition) and because of this lack of specificity there is no enforcement for non-performance. Therefore there is no present obligation for an outflow of resources and as such no liability.
15. Staff consider that there may be some transfers with time requirements that do have a return obligation if not used within the time period specified, however it may be debatable whether a liability for this return is triggered when the resources are receivable by the resource recipient or when that time period expires. Staff consider that the past event that creates a present obligation is when the time period as expires (i.e. end of the period) therefore no liability would be recognised initially.
16. The respondent who was not in favor of any of the options commented that transfers with time requirements should be recognised when receivable and information about any restrictions communicated via presentation, but they did not support a different presentation in the statement of financial performance – disaggregation or revenue – because in their view it could create confusion and would impair understandability of the financial statements. Staff comment that this option is already available to preparers and do not consider that it addresses the issue of revenue being recognized immediately when intended to be used over a specified time period.
17. Staff have again reviewed the comments letters coded ‘Response not clear’ and have been able to recode four responses to other categories but three still remain unclear, however it should be noted that two of these responses are identical.

Evaluating the options

18. In this next section, staff have provided the feedback from respondents to the CP and will evaluate each of the approaches proposed by providing advantages and disadvantages for each option. Included in this analysis will be an example of how the financial statements would be presented for each approach.
19. However, regarding Option (b) – Classify time requirements as a condition – given the Board’s decision to proceed with the PSPOA, staff consider that because a condition in IPSAS 23 is analogous to a performance obligation in the PSPOA this option is no longer viable, as such it will not be evaluated further.

Option (a) – Require enhanced display and/or disclosure

20. This option received support from seven respondents (18%) and is likely to be the least controversial of the approaches proposed as it does not change the any recognition requirements in IPSAS 23 and preparers are currently able to be apply what has been proposed. However, if this approach is included as an option in the [draft] ED then enhanced display and/or disclosure would be mandated and not only be voluntary as it currently is.
21. The arguments in support of requiring enhance display and/or disclosure were as follows:
- (a) It could provide all the necessary information to users, while being conceptually sound and easy and cost effective to implement.
 - (b) 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.
 - (c) Overloading information on the face of the financial statement can detract from user ability, therefore we prefer to enhance information in the notes to the statements.
 - (d) The IPSASB should consider allowing information to be aggregated (e.g. for multiple grants) and expand the enhanced display/disclosure for other transactions with restrictions.
 - (e) We favor this option and recommend revenues be allocated on the basis of established IPSAS principles and caution be exercised in attempting to match revenue and expenses.
 - (f) If there is no liability then monies received should not be deferred – it would not be faithfully representative, nor would it adhere to the conceptual framework principles.
 - (g) This option seems appropriate as it will not lead to any change in existing accounting but would provide information indicating the time frame over which the resource provider intends the transfer to be used.
 - (h) This option is consistent with the element definitions of financial statements and will provide the necessary information for accountability and decision-making.
22. Arguments opposing this approach were as follows:
- (a) The Notes are not part of the financial statements and the objective cannot be to require the disclosure of accounting facts in the Notes. [Staff disagree with this argument as notes do form part of the financial statements IPSAS 23 paragraph 21(f)].
 - (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. This approach would not resolve this within the Statement of Financial Position.
 - (c) We do not think this approach 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.

- (d) This approach can distort the performance measurement during a period if applied alone. In any case, disclosures cannot compensate for inadequate or inappropriate accounting. Additional disclosure may be useful in combination with other alternative options.
- (e) 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.

23. Taking into account the comments above, staff have compiled the advantages and disadvantages of using the enhanced display/disclosure approach for transfers with time requirements.

Advantages	Disadvantages
<ul style="list-style-type: none"> Stays true to the definition of elements in the Conceptual Framework The current IPSAS literature does not prohibit this option. It is not that different from the current disclosure requirement under IPSAS 23.106(d) Gives the recipient a method of communicating its performance story Help educate users not to focus on the surplus/deficit but to look at what makes up the surplus/deficit 	<ul style="list-style-type: none"> Does not show on the financial statements that the recipient will use the resources in future periods Does not resolve the mismatch between the revenue recognition and when the resources are consumed This is suggesting reserve accounting which could be seen as a step backwards for some jurisdictions which have moved away from this

24. The impact on the financial statements of this option is shown below (assuming a grant is paid in year 1 and used in years 2–4).

	Year 1	Year 2	Year 3	Year 4
Statement of Financial Performance				
Revenue	Recognized in full on receipt	–	–	–
Expense		Recognized as incurred	Recognized as incurred	Recognized as incurred
Statement of Financial Position				
Cash/Bank	Debit on receipt	–	–	–
Accumulated Surplus or Deficit (Restricted)	At year end, displayed or disclosed as restricted	Reduced as grant is used	Reduced as grant is used	Reduced as grant is used

25. Staff are of the view that while this approach may provide better information to users it is already currently available for preparers to use and it does not resolve the problem of day one recognition.

Agenda Item

11.2.1

Option (c) – Classify transfers with time requirements as ‘other obligations’

26. This option received support from six respondents (16%) and could potentially be the most controversial of the approaches proposed as it introduces into the IPSAS suite of standards the concept of an ‘other obligation’ which in essence acts like a liability but does not have all the characteristics to be classified as a liability.
27. As explained in the Conceptual Framework at paragraph 5.4, in some circumstances recognition of an economic phenomena that is not captured in the ‘Elements’ chapter of the framework is necessary to ensure that the financial statements provide information that is useful for a meaningful assessment of an entity’s financial position and financial performance. The Basis for Conclusions suggests that the use of these economic phenomena would be made at a standards level.
28. The arguments in support of using the ‘other obligation’ classification are as follows:
- (a) This option will result in information that is useful for meaningful assessment of the financial performance and financial position of a public sector entity. It is consistent with the IPSASB Conceptual Framework and moreover would allow to recognize revenue over more than one reporting period if applicable.
 - (b) This options is in line with the Conceptual Framework.
 - (c) This approach would convey to users of the financial statements that the entity has resources that are intended for use in subsequent reporting periods.
 - (d) 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.
29. Arguments opposing using the ‘other obligation’ approach are as follows:
- (a) Although the concept of an ‘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 circumstances can fuel ransom use, which may significantly impair the understandability of users of the financial statements.
 - (b) Our stakeholders were uncomfortable with this option and questioned the conceptual correctness and how well users would be able to understand the information presented because it has not been used before.
 - (c) This option is not conceptually sound as it creates liabilities artificially which do not meet the definition of a liability in the conceptual framework.
 - (d) The IPSASB should give consideration if a precedent is to be set by treating timing differences as other resources and other obligations. The IPSASB may want to reserve these categories for recognition of complex public sector transactions for which accountability will not be served through recognition of the transactions using the elements of financial statements.

30. The summarized advantages and disadvantages of using the 'other obligations' approach is shown in the following table.

Advantages	Disadvantages
<ul style="list-style-type: none"> Consistent with the Conceptual Framework because this transaction is an economic phenomenon that does not meet the definition of any element but is recognized in the financial statements to meet the objectives of financial reporting Addresses constituents' concerns about the mismatch between revenue recognition and when the resources are consumed Users can see information about flows relating to future periods 	<ul style="list-style-type: none"> Some argue that time requirements are deferrals and are not economic phenomena that should be treated differently from other revenue transactions with no performance obligations but with stipulations over use This could lead to other deferrals being on the balance sheet even though they don't meet the definition of a liability

31. The impact on the financial statements of this option is shown below (assuming a grant is paid in year 1 and used in years 2–4).

	Year 1	Year 2	Year 3	Year 4
Statement of Financial Performance				
Revenue	–	Recognized to match grant used	Recognized to match grant used	Recognized to match grant used
		Recognized as incurred	Recognized as incurred	Recognized as incurred
Statement of Financial Position				
Cash/Bank	Debit on receipt	–	–	–
Other Obligations	Credit on receipt	Reduced as revenue is recognized	Reduced as revenue is recognized	Reduced as revenue is recognized

32. Staff consider that despite the lower level of support from respondents to the CP, due consideration should be given this approach because it should address the concerns from constituents re the IPSAS 23 application issues for transactions with time requirements – i.e. multi-year grants. Although some respondents argued that this approach is not conceptually sound, the use of an 'other obligation' or 'other resource' is cited within the Conceptual Framework and was therefore its use was anticipated when the framework was being developed.
33. Further, staff are of the view that any confusion about the use of this approach can be addressed through the notes to the financial statements.

Option (d) Recognize a transfer with time requirements in net assets/equity and recycle through the statement of financial performance

34. This option received the most support from respondents to the CP with 10 or 26% indicating that this approach was their preferred option. Although not potentially as controversial as Option (d), this

approach does introduce a concept similar to 'Other Comprehensive Income' which has been rejected by the Board previously.

35. The arguments in support of this approach put forward by respondents to the CP are as follows:
- (a) This is the only approach which is consistent with accrual principles.
 - (b) We understand that this option does not go against the IPSASB Conceptual Framework and also ensures the alignment with the IASB Conceptual Framework.
 - (c) 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*.
 - (d) This option 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 tracing how such revenue initially recognized in net assets/equity are released through the statement of financial performance on fulfilling the obligation. It also brings category B transaction treatment of revenue close to the principle of paragraph 82(a) of IAS 1 on other comprehensive income section.
 - (e) This is the most transparent disclosure. This most accurately reflects the current position re use of resources 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) [classify time requirements as a condition].
 - (f) Sufficient guidance would need to be provided under this option on the timing of 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.
36. Respondent arguments against this approach are as follows:
- (a) Our stakeholders were generally not supportive of this option 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.
 - (b) Whilst less complex than Option (c) and already established in IPSAS, applying this approach to timing differences would be new ground.
 - (c) This option is rejected 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.
 - (d) We do not favor this option, although the recycling option is consistent with the IPSASB Conceptual Framework, this approach would lead to the introduction of the notion of 'other comprehensive income' in IPSAS which might undermine the understandability of information by the users including citizens.

- (e) This approach would increase complexity and may be difficult to understand for the readers of financial statements.

37. The advantages and disadvantages of this approach are shown below.

Advantages	Disadvantages
<ul style="list-style-type: none"> Some consider this best represents the economic reality in terms of cash flows Consistent with the Conceptual Framework as the Framework does certain elements to be linked to particular financial statements The use of net assets/equity is already used in other IPSAS such as IPSAS 29 which requires gains/losses of the hedging instrument in cash flow hedges to be recognized in net assets/equity although it is acknowledged that this is in the circumstances of unrealized gains/losses whereas for transactions with time requirements the inflow has already materialized. 	<ul style="list-style-type: none"> Some consider this could misrepresent the recipient's financial performance, for example it would show that the recipient is not better off from a performance perspective even though there has been an increase in net assets. Deferring resources in net assets/equity may be difficult to understand as it is a change from current practice.

38. The impact on the financial statements of this option is shown below (assuming a grant is paid in year 1 and used in years 2–4).

	Year 1	Year 2	Year 3	Year 4
Statement of Financial Performance				
Revenue	–	Recognized to match grant used	Recognized to match grant used	Recognized to match grant used
Expense		Recognized as incurred	Recognized as incurred	Recognized as incurred
Statement of Financial Position				
Cash/Bank	Debit on receipt	–	–	–
Restricted Reserves (in Net Assets/Equity)	Credit on receipt	Reduced as revenue is recognized	Reduced as revenue is recognized	Reduced as revenue is recognized

39. As noted above, this approach received the most support from respondents to the CP and staff are of the view that this approach, (as well as Option (c)) provides the best solution to constituent concerns regarding the current accounting treatment for transactions with time requirements. It will allow the deferral of revenue recognition over the time period intended by the donor and, is still consistent with the conceptual framework because elements are not tied to particular financial statements.
40. To understand better how all the approaches would impact the information provided to users, an illustration of what the financial statements would look if a particular option was adopted is presented in the accompanying Appendix.

Staff Recommendations

41. Of the three options discussed above staff are of the view that Option (c) and/or (d) should be included in a [draft] exposure draft on Revenue. Both approaches allow revenue to be recognized over the time period(s) for which the grant was intended. Staff are aware that both approaches are a departure from current practice and from what is contained in the current suite of IPSAS standards but are of the opinion that any confusion can be addressed through note disclosures.

Decisions Required

42. The IPSASB is asked which option(s) for updated IPSAS 23 for transfers with time requirements should be included in a [draft] exposure draft on revenue:
- Option (a) – Require enhanced display and/or disclosure;
 - Option (c) – Classify transfers with time requirements as ‘other obligations’; or
 - Option (d) – Recognize a transfer with time requirements in net assets/equity and recycle through the statement of financial performance.

The following fact pattern has been used to illustrate how the financial statements and/or notes would be presented for each of the approaches proposed.

Example: Transfer of general operating grant with time requirements

A Central government provides a general operating grant to a local government entity to be consumed over three years.

Specifications The agreement does not include any return obligation, any performance obligation or stipulation over use. The central government has no enforcement mechanisms available to require the local government entity to consume the funding on specific activities.

Cost CU 300,000

Timing of payments The full CU 300,000 is paid on 29 December 20X1. The local government's balance date is 31 December 20X1.

Timing of expenditure The local government expects to spend the funds as follows:

20X2 CU 100,000

20X3 CU 150,000

20X4 CU 50,000

Option (a) – Enhanced Display and/or Disclosure

Statement of Financial Performance

For the period ended 31 December 20X1-20X4	20X1	20X2	20X3	20X4
--	------	------	------	------

Revenue

Revenue – restricted (for use in 20X1 – 20X4)	300,000	XX	XX	XX
Revenue – unrestricted	XX	XX	XX	XX
Total revenue	XX	XX	XX	XX

Expenses

Operating expense - restricted	XX	100,000	150,000	50,000
Operating expense - unrestricted	XX	XX	XX	XX

Net surplus/deficit

	XX	XX	XX	XX
--	----	----	----	----

Statement of Financial Position

As at 31 December 20X1-20X4	20X1	20X2	20X3	20X4
-----------------------------	------	------	------	------

Current assets

Revenue
IPSASB Meeting (December 2018)

Bank	300,000	XX	XX	XX
<u>Accumulated surplus/(deficit)</u>				
Restricted	300,000	200,000	50,000	-
Unrestricted	XX	XX	XX	XX
Note disclosure in the 20X1 financial statements				
Accumulated surplus/deficit is CU XX, within this amount is CU 300,000 of revenue that has been recognized in the statement of financial performance. This resource is restricted for use to fund the general operations of the entity for the years 20X2 - 20X4. The reconciliation of this restricted fund is presented below.				
Note disclosure in the 20X2-20X4 financial statements				
Accumulated surplus/deficit is CUXX, within this amount is CU 100,000 (20X3: CU 150,000; 20X4: CU 50,000) of restricted operating expense that has been recognized in the statement of financial performance. This expense was funded by a restricted resource of CU 300,000 received in 20X1. This resource is to be used for the general operations of the entity for the years 20X2-20X4. The reconciliation of this restricted fund is presented below.				
Restricted funds	20X1	20X2	20X3	20X4
Opening balance	0	300,000	200,000	50,000
Revenue during the period	300,000	0	0	0
Funds used during the period	0	100,000	150,000	50,000
Closing balance	300,000	200,000	50,000	0

Option (c) – Classify transfers with time requirements as ‘other obligations’

Statement of Financial Position				
As at 31 December 20X1-20X4	20X1	20X2	20X3	20X4
<u>Current assets</u>				
Bank	300,000	XX	XX	XX
<u>Other obligations</u>				
Restricted revenue	300,000	200,000	50,000	
Statement of Financial Performance				
For the period 31 December 20X1-20X4	20X1	20X2	20X3	20X4
<u>Revenue</u>				
Grant	XX	100,000	150,000	50,000
<u>Expenses</u>				
Operating expense	XX	100,000	150,000	50,000
<u>Net surplus/(deficit)</u>	XX	XX	XX	XX

Option (d) – Recognize a transfer with time requirements in net assets/equity and recycle through the statement of financial performance

Statement of Changes in Net Assets/Equity			
For the period ended 31 December 20X1-20X4			
	Other reserves	Accumulated surpluses/(deficits)	Total
Opening balance - 31 December 20X0	XX	XX	XX
Restricted reserve	300,000	XX	300,000
Net revenue recognized directly in net assets/equity	300,000	XX	300,000
Surplus/deficit for the period	XX	XX	XX
Total recognized revenue and expense for the period	300,000	XX	XX
Closing balance - 31 December 20X1	300,000	XX	XX
Opening balance - 31 December 20X1	300,000	XX	XX
Transfer from restricted reserve	(100,000)	XX	(100,000)
Surplus/deficit for the period	XX	XX	XX
Total recognized revenue and expense for the period	100,000	XX	XX
Closing balance - 31 December 20X2	200,000	XX	XX
Opening balance - 31 December 20X2	200,000	XX	XX
Transfer from restricted reserve	(150,000)	XX	(150,000)
Surplus/deficit for the period	XX	XX	XX
Total recognized revenue and expense for the period	150,000	XX	XX
Closing balance - 31 December 20X3	50,000	XX	XX
Opening balance - 31 December 20X3	50,000	XX	XX
Transfer from restricted reserve	(50,000)	XX	(50,000)
Surplus/deficit for the period	XX	XX	XX
Total recognized revenue and expense for the period	50,000	XX	XX
Closing balance - 31 December 20X4	XX	XX	XX

Statement of Financial Position				
As at 31 December 20X1-20X4	20X1	20X2	20X3	20X4
<u>Current assets</u>				
Bank	300,000	XX	XX	XX
<u>Other reserves</u>				
Restricted	300,000	200,000	50,000	0
Unrestricted	XX	XX	XX	XX
Statement of Financial Performance				
For the period 31 December 20X1-20X4	20X1	20X2	20X3	20X4
<u>Revenue</u>				
Grant – reclassified from reserves	XX	100,000	150,000	50,000
<u>Expenses</u>				
Operating expense	XX	100,000	150,000	50,000
<u>Net surplus/(deficit)</u>	XX	XX	XX	XX