IPSASB

Agenda Item 5:
Revenue and Transfer Expenses

Dave Warren, Principal

Edwin Ng, Principal

Joanna Spencer, Manager

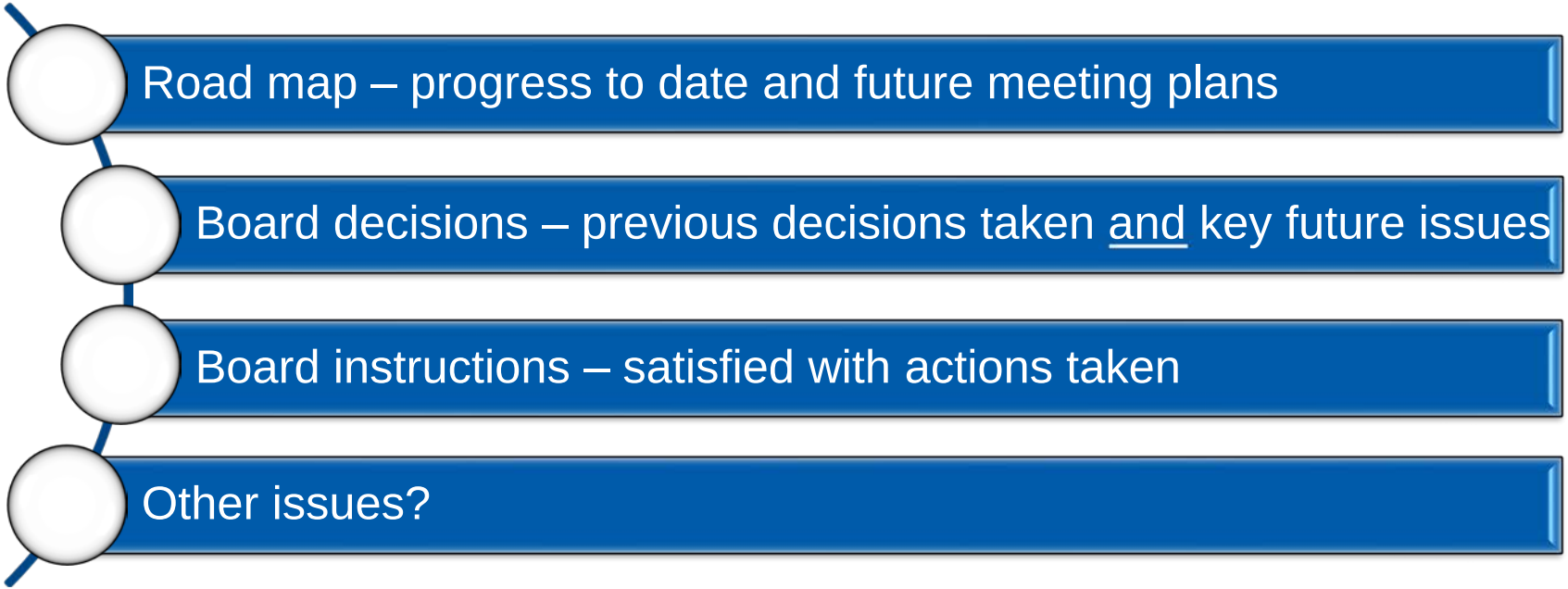
Paul Mason, Senior Advisor

IPSASB Meeting

Abu Dhabi, United Arab Emirates

December 10–13, 2019

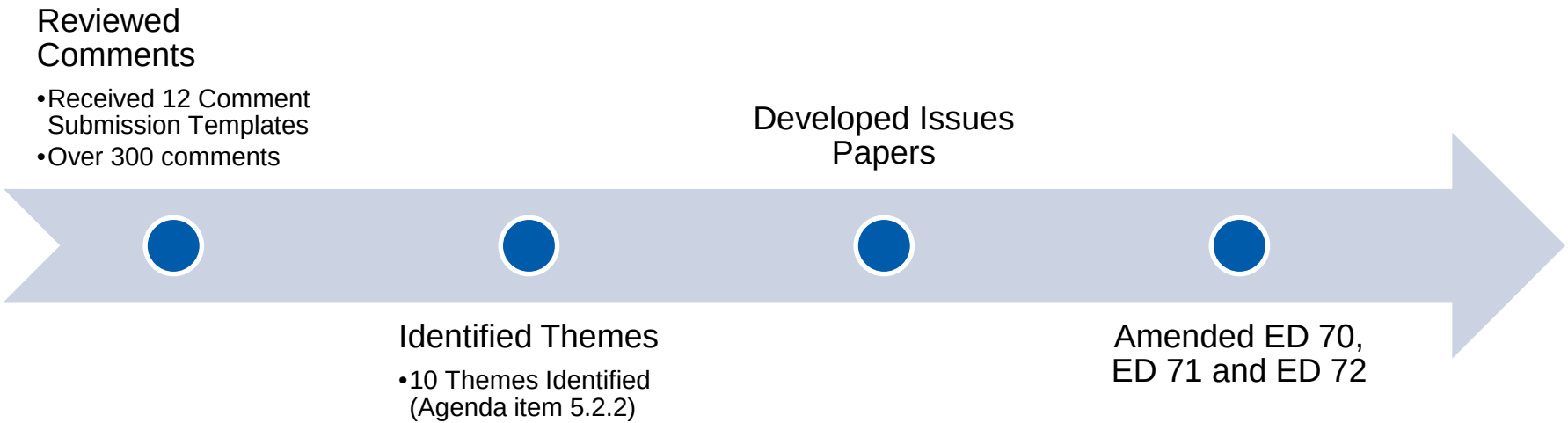
Project management – Stock take



Session Outline

- Process Followed in Addressing In-Period Review Comments
- Summary of In-Period Review Issues
- Transfer Revenue with Performance Obligations and Transfer Revenue
- Disclosures
- Definition of Binding Arrangements
- Examples / Editorials

Process Followed in Addressing In-Period Review Comments (Agenda Item 5.2.1)



Summary of In-Period Review Issues (Agenda Item 5.2.2)

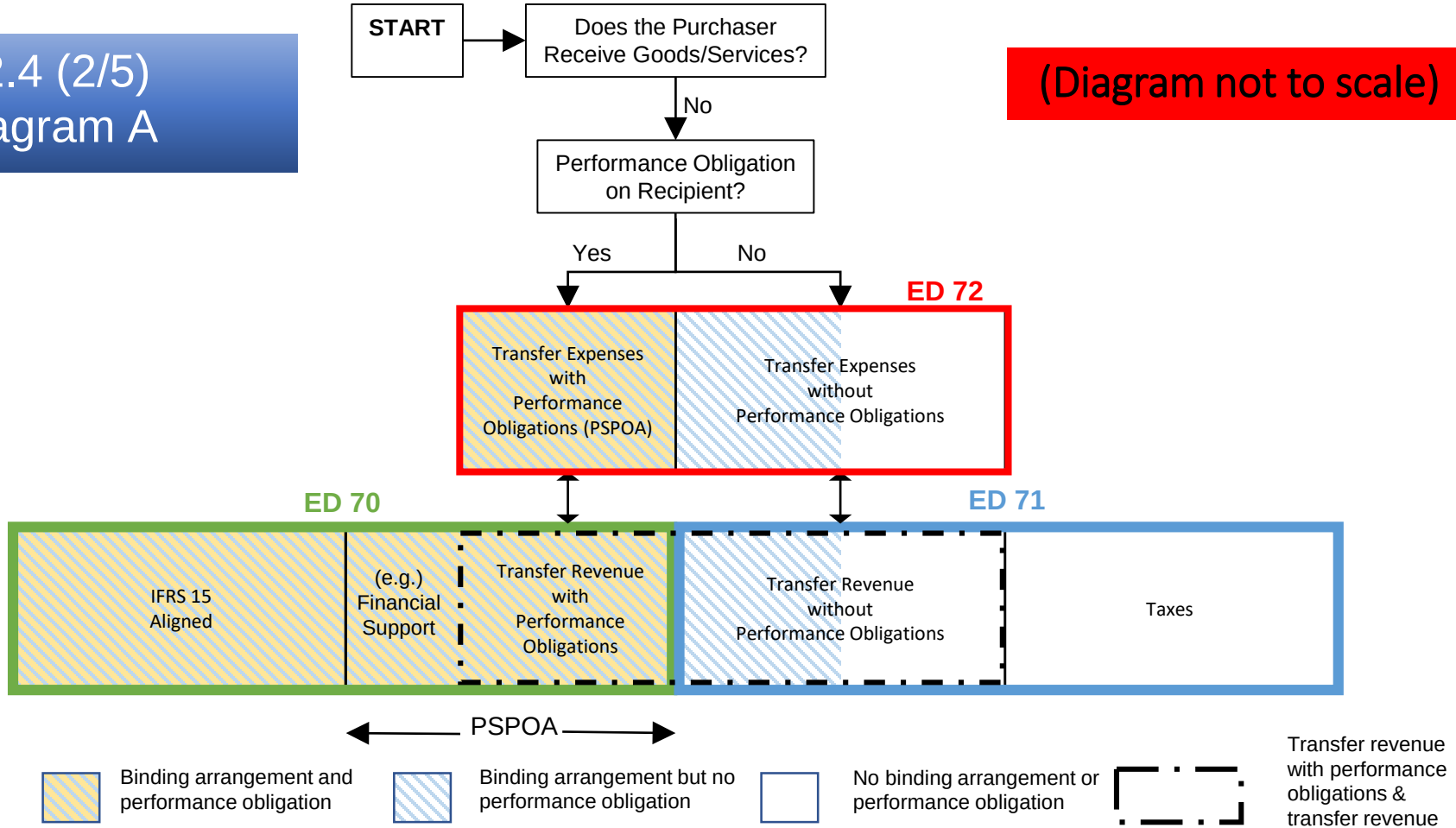
#	Theme	ED Impacted
01	Transfer Revenue / Transfer Expense	Cross Cutting
02	Disclosures	Cross Cutting
03	Binding Arrangement	Cross Cutting
04	Examples / Editorials (Including BCs)	Cross Cutting
05	Structure	ED 71 / ED 72
06	Measurement	ED 71
07	Capital Transfers	ED 71
08	Scope	ED 72
09	PSPOA Assessment	ED 72
10	Other Issues	ED 71

Transfer Revenue with Performance Obligations and Transfer Revenue (Agenda Item 5.2.3) (1/6)

Issue

- Feedback indicated it is critical for EDs to highlight mirroring relationship between revenue and transfer expenses
  - Respondent noted that certain transactions as depicted in Diagram A should be defined and their relationship to each other should be highlighted
- Respondent also questioned whether taxes should be included in transfers
  - Nature of taxation is fundamentally different from the transactions commonly thought of as transfers, such as capital and operating grants

5.2.4 (2/5) Diagram A



(Diagram not to scale)

Transfer Revenue with Performance Obligations and Transfer Revenue (Agenda Item 5.2.3) (3/6)

Further Consideration

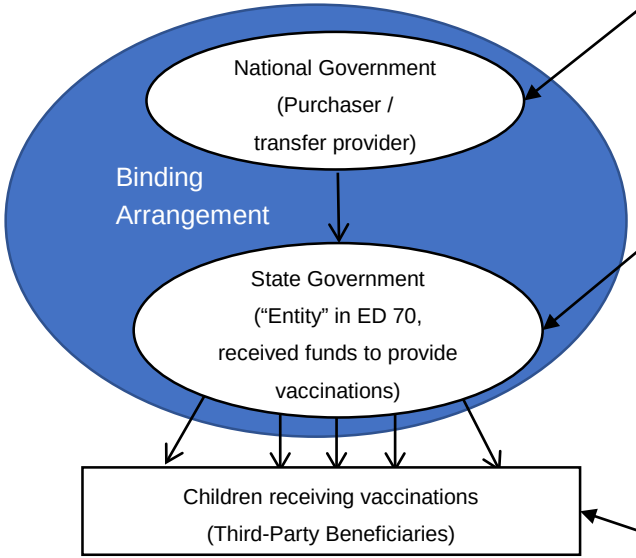
- "Transfer Revenue" and "Transfer Expense" are not always recognized as revenue or expenses in the financial statements
  - Using the words "revenue" and "expense" to describe items that are not recognized as revenue or expense may cause confusion
  - Staff propose to use the terms "Transfer Receipts" and "Transfer Expenditures" and only use "transfer revenue" and "transfer expense" once these items are recognized as revenue and expenses in the statement of financial performance

Transfer Revenue with Performance Obligations and Transfer Revenue (Agenda Item 5.2.3) (4/6)

Recommendation

- Replace definition of “Transfer” in ED 71 with “Transfer Revenue”
- Modify definition of “Transfer Expense” to exclude taxes but leave accounting for taxes in scope of ED 72
- Define term “Transfer Revenue with Performance Obligations” as revenue earned from the provision of goods or services to third-party beneficiaries
  - Include paragraph in AG to explain relationship between Transfer Revenue with Performance Obligations and Transfer Revenue
- Staff tested the above definitions in Diagram B

5.2.4 (4/5) Diagram B



National Government is the Transfer Provider:
- Payment meets the definition of transfer expense (i.e., paying resources and getting nothing in return)
- Applies ED72

State Government is the "Entity" in ED70:
- Receives consideration in exchange for the provision of goods or services
- Consideration received is not "transfer revenue" since entity is required to provide vaccines to a third-party beneficiary
- Provision of vaccines is not "transfer expense," as it was done in exchange for consideration

Staff proposes to define the revenue recognized by the State Government as "Transfer Revenue with Performance Obligations"

Children are the Transfer Recipient (if they apply IPSAS):
- Receipt of goods/services without paying anything in return
- Applies ED71

Staff proposes to define the transaction recognized by the children (if they applied IPSAS) as "Transfer Revenue"

Transfer Revenue with Performance Obligations and Transfer Revenue (Agenda Item 5.2.3) (6/6)

Decision Required

- Does the IPSASB agree with the Staff's recommendations?

Disclosures (Agenda Item 5.2.4) 1/2

Issue

- Inconsistent disclosure requirements across ED 70, ED 71 and ED 72

Options

- Option 1 - Import disclosures from ED 70 in to ED 71 and ED 72
- Option 2 – Delete disclosures from ED 70 and ED 72 in line with ED 71
- Option 3 – Maintain disclosures and ask an SMC

Recommendation

- Option 3 – Maintain current disclosures and ask an SMC

Disclosures (Agenda Item 5.2.4) 2/2

Decision required

- Does the IPSASB agree to:
  - Adopt Option 3 for disclosures across ED 70, ED 71 and ED 72; and
  - The proposed SMC on disclosures?

Definition of Binding Arrangement (Agenda Item 5.2.5) 1/5

Issue 1

- Respondent noted that definition is unclear and in their view:
  - Does not imply both rights and obligations are conferred to both parties
  - Does not indicate rights and obligations need to be equal
- Due to unclear definition, respondent is unclear why taxes, fines, bequests and donations are not binding arrangements

"A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement."

Definition of Binding Arrangement (Agenda Item 5.2.5) 2/5

Recommendation 1

- Current definition is sufficiently clear:
  - Refers to enforceable “rights ***and*** obligations”, not “rights ***or*** obligations”
  - “Parties to the arrangement” does not specify only one party or another
  - Not meant to convey equal rights and obligations – often they are not equal
  - AG14 of ED 70 already explains that *both parties* can enforce rights and obligations
  - Definition was already reviewed and approved by the IPSASB in 2018
- Staff noted that it would be helpful to specify that this definition of a binding arrangement is specific to ED 70 – 72

Definition of Binding Arrangement (Agenda Item 5.2.5) 3/5

Issue 2

- ED 70 and ED 71 imply that a transaction that is not a binding arrangement is automatically unenforceable
- Some transactions in ED 71 may be enforceable, but they do not arise from binding arrangements (e.g. taxes, fines, bequests and certain donations)

Definition of Binding Arrangement (Agenda Item 5.2.5) 4/5

Recommendation 2

- Clarify the definition of Binding Arrangement in ED 70 only applies to ED 70, 71 and 72
- Add application guidance to ED 71 as follows:
  - “Some ED 71 transactions may be enforceable, but only create rights or obligations for each party. These transactions do not satisfy the requirements of a binding arrangement because of the lack of two-way enforceability (for example, taxes).”
- Soften the use of the term "unenforceable" for certain transactions within the scope of ED 71

Definition of Binding Arrangement (Agenda Item 5.2.5) 5/5

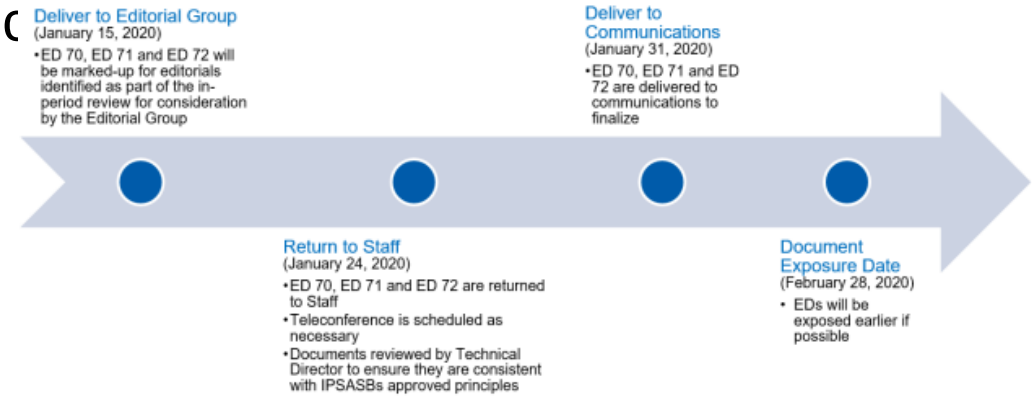
Decision required

- Does the IPSASB agree with Staff's recommended changes?

Examples / Editorials (Agenda Item 5.2.6) 1/2

Recommendation

- All editorial and non-authoritative material, except for Basis for Conclusions, should be actioned and reviewed through the Editorial Review Proc



Examples / Editorials (Agenda Item 5.2.6) 2/2

Decision Required

- Does the IPSASB agree with the recommended process



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