

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: April 29, 2021

Agenda Item 1

For:

☐ Approval

☒ Discussion

☐ Information

TRANSFER EXPENSES

Project summary	The aim of the project is to develop a standard that provides recognition and measurement requirements applicable to providers of transfer expenses.	
Task Force members	Staff will consider the need and composition of a Task Force in Q2 as part of the revenue discussions.	
Meeting objectives Project management	Topic	Agenda Item
	Transfer Expenses: Project Roadmap	1.1.1
	Instructions up to Previous Meeting	1.1.2
	Decisions up to Previous Meeting	1.1.3
Decisions required at this meeting	Transfer Expenses Project Overview	1.2.1
	Addressing Key Issues Identified in Responses to ED 72	1.2.2
	Application of Executory Contract Accounting Principles	1.2.3
Other supporting items	Supporting Document – Exposure Draft (ED) 72, <i>Transfer Expenses: Specific Matters for Comment (SMC)</i>, and Analysis of Respondents	1.3.1

**TRANSFER EXPENSES:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
Transfer Expenses	
March 2018	<ol style="list-style-type: none"> 1. Review of responses – PSPOA 2. Review of responses – subsequent measurement of non-contractual payables
June 2018	<ol style="list-style-type: none"> 1. Discussion of use of PSPOA for non-exchange expenses
September 2018	<ol style="list-style-type: none"> 1. Discussion of use of PSPOA for non-exchange expenses
March 2019	<ol style="list-style-type: none"> 1. Initial discussion of objective and scope 2. Initial discussion of definitions 3. Discussion of PSPOA 4. Initial discussion of presentation 5. Initial discussion of effective date and transition requirements 6. Initial review of draft ED
June 2019	<ol style="list-style-type: none"> 1. Discussion of scope and definitions 2. Discussion of subsidies and premiums 3. Discussion of additional material to be included in the ED 4. Discussion of examples to be included in the ED
September 2019	<ol style="list-style-type: none"> 1. Disclosures – discussion of issues 2. Review of initial draft of ED
December 2019	<ol style="list-style-type: none"> 1. Review of draft ED final amendments 2. Review of examples – exception basis only 3. Approval of ED
March 2020 to September 2020	<ol style="list-style-type: none"> 1. Document Out for Comment
December 2020	<ol style="list-style-type: none"> 1. Review Responses 2. Discuss Issues
April 2021 to June 2021	<ol style="list-style-type: none"> 1. Review Responses 2. Discuss Issues 3. Develop IPSAS
September 2021	<ol style="list-style-type: none"> 1. Discuss Issues 2. Develop IPSAS
December 2021	<ol style="list-style-type: none"> 1. Approve IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
Transfer Expenses		
December 2020	1. Regarding the staff's proposal to revise the disclosures in the three EDs based on the nature and risks of the various types of revenue and transfer expenses applicable to the public sector, revisit the analysis in more detail and include consideration of which types of revenue and transfer expense transactions are the most prominent in the public sector.	1. In progress.
December 2019	1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses .	1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses .

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
Transfer Expenses		
December 2020	1. Address concerns over the nature and length of disclosures in all three EDs by taking a principles-based approach focusing on the nature of the transactions and their risks.	1. BC to be included in final IPSAS.
December 2019	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses.	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 72, Transfer Expenses.

Transfer Expenses Project Overview

Purpose

1. To provide an overview and background of the Exposure Draft (ED) 72, *Transfer Expenses* project to date.

Background

2. The gap in current IPSAS on accounting for non-exchange expenses may lead to inconsistent accounting policies for a highly significant area of public sector expenditure. To address this gap, the transfer expenses project was approved as part of the IPSASB's 2015 Strategy and Work Plan.¹ The project seeks to develop a new standard for transfer expenses that is consistent with the accounting for equivalent revenue transactions, which are being addressed in parallel.
3. The IPSASB issued ED 72 in February 2020, concurrent with the issuance of the revenue EDs, which proposes recognition and measurement requirements for transfer providers.

Proposed guidance in ED 72

4. ED 72 defines a transfer expense as an expense arising from a transaction, other than taxes, in which a transfer provider provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.²
5. In some situations, a transfer expense can embody a performance obligation (e.g., a transfer provider provides resources to a transfer recipient, who is then required to provide a good or service to a third-party beneficiary). In other scenarios, it is possible for a transfer expense to be without performance obligations (e.g., a transfer provider provides resources to a transfer recipient, who then uses the resources for its own benefit).
6. For transfer expenses with performance obligations, ED 72 requires a transfer provider to recognize an asset upon the provision of resources, and the asset is expensed when (or as) the transfer recipient satisfies its performance obligations. If a transfer provider does not monitor the transfer recipient's satisfaction of performance obligations, the arrangement is accounted for as a transfer expense without performance obligations.
 - (a) For example, International Organization A transferred CU 500,000 to Country B to fund the provision of 100,000 doses of vaccines to Country B's citizens. International Organization A can monitor the provision of the distinct good (i.e., the transfer of 100,000 doses of vaccines) to Country B's citizens and concluded that the requirement for Country B to provide the vaccines to its citizens is a performance obligation. As the vaccines are administered by Country B, International Organization A recognizes an expense of CU 5 per dose.

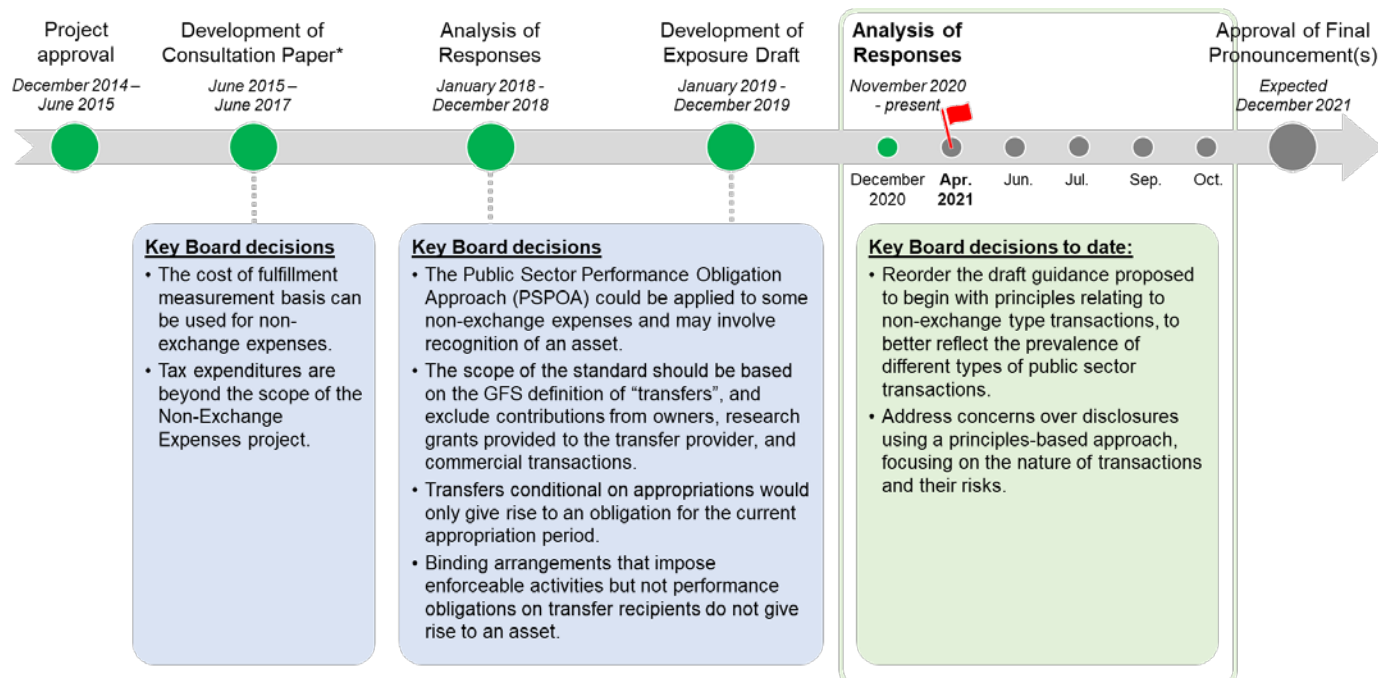
¹ The IPSASB began its work on expense accounting with its social policy obligations project in 2002, which resulted in an Invitation to Comment, "Accounting for Social Policies of Government," published in January 2004. Subsequently, the IPSASB separated social benefits and other non-exchange expenses into different project streams. The non-exchange expenses project was initiated as part of the IPSASB's 2015 Strategy and Work Plan, and later became the transfer expenses project. To date, the phased program of work to address these transactions has culminated in the January 2019 issuance of IPSAS 42, *Social Benefits*, and the January 2020 issuance of *Collective and Individual Services* (Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*).

² ED 72, paragraph 8.

7. For transfer expenses without performance obligations, ED 72 requires the transfer provider to recognize an expense at the earlier of (i) the point when the entity has a present obligation to transfer resources, and (ii) the point at which the entity loses control of the resources transferred.³
- (a) For example, if International Organization A transferred CU 500,000 to Country B to fund the provision of 100,000 vaccines but concluded that the arrangement is without performance obligations. International Organization A recognizes an expense at the earlier of when it commits to transfer the funds, or when the funds are transferred.

Project timeline and key decisions

8. The transfer expenses project has been shaped by several key IPSASB decisions as it progressed through the Consultation Paper (CP) and ED phases. These decisions made during the development and issuance of both the CP and ED need to be considered wholistically with constituent feedback to ED 72 to frame and will provide context for future decisions as the Board progresses towards finalizing the transfer expenses standard. In other words, past Board deliberations and intent will provide context during the review of responses to ED 72.



* The Consultation Paper (CP) was a joint output of the Revenue and Transfer Expense projects.

Staff’s process to date

9. The IPSASB received 65 comment letters in response to the transfer expense ED. Overall, there was support for the proposals in the ED, as a majority of respondents appear to agree or partially agree with the Specific Matters for Comment (SMCs) in the respective EDs ([Agenda Item 1.3.1](#)). When staff assessed all ED responses, considering individual comments from each comment letter, staff noted:

³ ED 72, paragraph 91.

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- (a) Each comment should be considered on its own merit and not just in the context of the SMC in which it was presented. This includes considering the context of past IPSASB decisions in the project, and the development of approaches in the CP and in ED 72.
- (b) Some of the responses highlight conceptual issues in specific components of the proposed ED 72 accounting model that require further consideration.
- (c) Identified issues often related to overarching themes:
 - (i) *Interrelation between EDs* – principally the distinction between performance obligations and present obligations, whether existence of a present obligation would also give rise to an asset, and the lack of “symmetry” between proposed guidance in ED 71 and ED 72.
 - (ii) *Application in Practice* – specifically the difficulty of applying the Public Sector Performance Obligation Approach (PSPOA) in practice, distinguishing transfer expense transactions with performance obligations from those with present obligations, and potential difficulty and implications of monitoring the satisfaction of performance obligations.
 - (iii) *Extent of Disclosures* – determining the appropriateness of the extent and relevance of disclosures in the proposed standard, and availability of information required for such disclosures.
 - (iv) *Additional Guidance* – further elaboration and clarification of proposed guidance, inclusion of additional examples, or other supporting guidance.

See [December 2020 Agenda Item 8.2.1](#) for more details on staff’s preliminary analysis.

- (d) Several issues are dependent on the resolution of other higher-level issues (i.e., resolution of specific issues could indirectly resolve other issues). Therefore, it is important to manage the issues in a systematic way to ensure continued progress of the project.
10. Staff reviewed and analyzed each comment letter in NVivo (a data analysis software program) and considered the substance of individual comments made within each response. Staff:
- (a) Identified issues noted in each comment letter related to the SMCs and additional matters or recurring themes which require further consideration, and coded portions of each response to the relevant SMC or identified theme(s); and
 - (b) Identified a comprehensive list of key issues and aggregated substantive comments. The list of issues is a result of staff analysis focused on the areas where constituents indicated a need for further consideration.

Detailed NVivo reports are available to Board members upon request.

Decision Required

11. No decision required. This agenda item is for information purposes only.

Addressing Key Issues Identified in Responses to ED 72

Questions

1. Does the IPSASB agree with staff's recommended approach to address issues as proposed in paragraph 10, in particular:
 - (a) Addressing issues related to principles before reviewing proposed drafting changes to the proposed transfer expenses standard?
 - (b) Addressing issues by considering implications from decisions made in the revenue project?

Recommendations

2. Staff recommend:
 - (a) *Addressing issues related to principles first* – Key issues raised by constituents related to accounting principles should be addressed first. After principles have been (re)-confirmed, staff will provide proposed drafting in line with IPSASB decisions on the agreed principles; and
 - (b) *Addressing issues by considering implications from the revenue project* – Discuss and address issues related to the principles in the proposed transfer expenses standard in the context of any related IPSASB decisions made in the revenue project, where appropriate (see [Appendix 1](#)).

Background

3. As discussed in [Agenda Item 1.2.1](#), the IPSASB's work on transfer expenses has been closely related to its work on revenue, and accounting guidance developed under the transfer expenses project is intended to be consistent with the accounting for equivalent revenue transactions under that project. Since IPSAS are a principle-based suite of standards, this consistency of principles is important for similar transactions and has been highlighted by constituents throughout both projects.
4. The IPSASB issued ED 72, *Transfer Expenses* in February 2020 at the same time as ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations*. ED 72 received 65 comment letters, and overall, most respondents agree or partially agree with the proposed guidance. Staff identified overarching themes through its response analysis, which were presented in December 2020 to the IPSASB and the IPSASB CAG members.

Analysis

Key issues identified in constituent responses to ED 72

5. During the detailed review process (outlined in [Agenda Item 1.2.1](#)), staff focused on areas where constituents disagreed or sought clarity, and noted:
 - (a) Respondents who partially agreed or disagreed with proposed accounting generally represented a minority of respondents;
 - (b) Although these responses represent a minority of all respondents, their comments have been aggregated into specific key issues which highlight potential conceptual flaws in the proposed accounting model. In staff's view, these comments indicate that consistency in accounting models in the proposed revenue and transfer expense standards did not achieve the objective

of consistency in principles. As such, the accounting model and the underlying principles for transfer expenses accounting should be revised accordingly; and

- (c) Issues raised by constituents can be categorized as either related to principles, or not related to principles (e.g., complexity and practicality of proposed guidance, or additional or revisions to proposed guidance). Staff's detailed review of these comments unpins the proposed plan to address issues related to transfer expense accounting. Detailed analysis of each principle-related issue will be presented beginning in June 2021.

Addressing issues related to principles first

- 6. Staff are of the view that categorizing comments in accordance with paragraph 5(c) will assist the IPSASB in prioritizing and addressing issues in an effective and efficient manner. Addressing issues related to principles first is consistent with the approach taken in the revenue project.
- 7. As mentioned in [Agenda Item 1.2.1](#), resolution of certain issues indirectly impact the resolution of other issues. For example, a significant minority of respondents disagreed with the proposal to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, as they considered there to be no economic difference between the two transactions. Consequently, they also disagreed with the recognition proposals to:
 - (a) Defer recognition of an expense where the transfer recipient has a performance obligation; but
 - (b) Recognize an expense immediately where the transfer recipient does not have a performance obligation (irrespective of whether the transfer recipient has a present obligation).

This interrelation supports first addressing issues where the resolution will impact other issues.

Considering implications from the revenue project

- 8. The IPSASB discussed several issues during its December 2020 and March 2021 meetings, which resulted in specific decisions on accounting principles for revenue transactions. To maintain consistency of principles for similar transactions (as highlighted in paragraph 3), it is necessary to consider the implications of these IPSASB revenue decisions on the transfer expense project and how they may help address issues identified by ED 72 respondents (see [Appendix 1](#)). There are several takeaways from relevant revenue decisions with implications in the context of the transfer expenses project, pertaining to:
 - (a) **Conceptual and directional** – the presentation of the standard should reflect the public sector, and that binding arrangements remain a fundamental concept; and
 - (b) **Specific principles** – principles around specific accounting issues such as enforceability, distinction between performance obligations and present obligations, measurement, and what gives rise to an asset for the transfer provider.
- 9. Staff considered how these takeaways may inform or address principle-related issues identified by ED 72 constituents and have provided staff views in [Appendix 1](#). These staff views on the implications of revenue decisions on the transfer expense project are intended to help the IPSASB:
 - (a) Achieve consistency in principles between the two projects; and
 - (b) Determine the appropriate path forward to resolve constituent concerns and finalizing the proposed transfer expenses standard.

Next steps

10. Given the high degree of connectivity with the ongoing revenue project, staff propose the following approach to addressing issues raised by constituents on ED 72:
 - (a) **Staff both projects with the same project lead** – One staff will lead both the revenue and transfer expenses projects to ensure consistency;
 - (b) **Address principle-related issues first** – This principles-first approach is consistent with the approach taken in the revenue project;
 - (c) **Apply agreed-upon principles from the revenue project, where appropriate** – Issues identified in the transfer expenses project that relate to issues in the revenue project will continue to be analyzed and discussed consistent with the approach in the revenue project. Thus, principles that are relevant for both projects will need to be landed first in the revenue project before it is considered and applied in the transfer expenses project. This will help to address constituent comments on the need for consistency conceptually for similar transactions across the revenue and transfer expenses guidance;
 - (d) **Provide detailed analysis papers based on agreed implications** – The IPSASB's discussions in April 2021 on the implication or application of principles confirmed in the revenue project on the transfer expenses project will provide direction for staff. Staff will present further analysis on each principle-related issue at future IPSASB meetings and this analysis will be framed by the path forward determined by the IPSASB in April 2021; and
 - (e) **Provide proposed drafting once principles have been agreed** – Once the IPSASB has confirmed the principle for a specific transfer expenses issue, staff will draft guidance based on the agreed-upon principles and address other non-principle related issues, where appropriate, for IPSASB review.
11. Based on staff's analysis of transfer expense issues and the implications of IPSASB decisions made in the revenue project to date, staff propose that the IPSASB address issues using the following project plan. Issues related to principles that are influenced by IPSASB discussions still occurring in, or in tangent with, the revenue project are noted in **yellow**.

Table 1: Proposed Project Plan

# <i>Note 1</i>	Issue	Related overarching themes	Implications of Revenue Decisions <i>Appendix 1</i>	Linked SMCs	Paper
1	Application of the Executory Contract Approach	<ul style="list-style-type: none"> • Interrelation between EDs • Additional guidance 	<ul style="list-style-type: none"> • B – Binding arrangement is fundamental concept • C – At least one present obligation in a binding arrangement • E – enforceability giving rise to asset • [related ongoing revenue discussion] 	<ul style="list-style-type: none"> • SMC 2 • SMC 6 • SMC 8 	Agenda Item 1.2.3

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# <i>Note 1</i>	Issue	Related overarching themes	Implications of Revenue Decisions <i>Appendix 1</i>	Linked SMCs	Paper
2	Binding arrangements (i.e., enforceability in the context of transfer expense accounting)	<ul style="list-style-type: none"> Additional guidance 	<ul style="list-style-type: none"> B – Binding arrangement is fundamental concept C – At least one present obligation in a binding arrangement D – Mechanisms of enforceability E – enforceability giving rise to asset 	<ul style="list-style-type: none"> SMC 6 SMC 8 	<i>pending</i>
3	What gives rise to an asset for transfer provider (i.e., initial recognition, SA and EE considerations)	<ul style="list-style-type: none"> Application in practice Additional guidance 	<ul style="list-style-type: none"> B – Binding arrangement is fundamental concept E – enforceability giving rise to asset [related ongoing revenue discussion] 	<ul style="list-style-type: none"> SMC 2 SMC 3 SMC 4 SMC 6 SMC 7 	<i>pending</i>
4	Accounting for different types of transfer expenses arising from binding arrangements (i.e., is performance obligation distinction and separate PSPOA model useful for transfer providers?)	<ul style="list-style-type: none"> Application in practice Additional guidance 	<ul style="list-style-type: none"> F – performance obligations differ 	<ul style="list-style-type: none"> SMC 2 SMC 5 	<i>pending</i>
5	Recognition and measurement of transfer expenses	<ul style="list-style-type: none"> Additional guidance 	<ul style="list-style-type: none"> B – Binding arrangement is fundamental concept E – enforceability giving rise to asset G – When consideration not directly attributable 	<ul style="list-style-type: none"> SMC 3 SMC 4 SMC 6 	<i>pending</i>
6	Clarify scope, including definition of “transfer expense”	<ul style="list-style-type: none"> Additional guidance 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> SMC 1 SMC 4 	<i>pending</i>
7	Reassess existing disclosures and consider any additional disclosures	<ul style="list-style-type: none"> Extent of disclosures 	<ul style="list-style-type: none"> F – performance obligations differ 	<ul style="list-style-type: none"> SMC 9 	<i>pending</i>
8	Other revisions to maintain consistency with revenue standards	<ul style="list-style-type: none"> Additional guidance 	<ul style="list-style-type: none"> multiple 	<ul style="list-style-type: none"> SMC 6 SMC 9 	<i>pending</i>
<i>multiple</i>	Other comments and clarifications	<ul style="list-style-type: none"> Additional guidance 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> All 	<i>pending</i>
<i>multiple</i>	Drafting proposed, based on agreed upon principles (above)				<i>pending</i>

Note 1: The order of papers to be presented at future Board discussions is subject to change based on progress and Board discussions.

Decision Required

12. Does the IPSASB agree with the Staff recommendations?

Appendix 1 – Considering Relevant Decisions on Revenue Principles in the Context of Transfer Expenses

1. The following table highlights key decisions from the IPSASB's discussions in the December 2020 and March 2021 IPSASB meetings that have implications for the transfer expenses project. Specifically, the following IPSASB decisions to retain, refine, or revise specific principles in revenue should be considered during transfer expenses discussions to ensure the IPSASB maintains consistency of principles for similar transactions (i.e., ensure that principles for transfer expenses transactions are consistent with principles for equivalent revenue transactions).
2. Staff have provided preliminary views on the implications of relevant decisions on revenue principles to the transfer expenses project (below). These implications have also been linked to the proposed issue papers related to accounting principles (in Table 1, above).

Takeaway	IPSASB Decisions on Revenue	Staff Views on the Implications for Transfer Expenses
Conceptual		
A	<ul style="list-style-type: none"> • Reorder the draft guidance in ED 70 and ED 71 to begin with ED 71, either as a separate standard, or a combined standard. [December 2020] • Address concerns over the nature and length of disclosures in all 3 EDs by taking a principles-based approach focusing on the nature of the transactions and their risks. [December 2020] • Revise the title(s) of the proposed revenue standard(s) to reflect the nature of revenue transactions in the public sector. [March 2021] • For the time being, continue to present revenue guidance as two separate standards with the standard based on ED 71 first (i.e., Option 1). [March 2021] 	<p>Presentation of the standard should reflect the public sector – In order to better reflect the nature and prevalence of different types of public sector transactions, guidance should be reordered to begin with principles relating to transactions prevalent in the public sector (non-exchange type transactions).</p> <p>The title of the proposed transfer expenses standard would not require revision as it already appropriately reflects the scope of the accounting guidance.</p>
B	<ul style="list-style-type: none"> • Retain the concept of a binding arrangement as a fundamental concept for revenue accounting, and that the existence of rights and obligations within, and enforceability of, a binding arrangement mean that it contains at least one present obligation. [March 2021] 	<p>Binding arrangement remains a fundamental concept – The concept of a binding arrangement is a fundamental concept for revenue accounting, thereby also remains fundamental in the context of transfer expenses.</p>
Principles		
C	<ul style="list-style-type: none"> • Adopt the principle from paragraph 12(a)(i), that enforceability of a binding arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the binding arrangement and hold the parties accountable to the satisfaction of stipulated obligations. [March 2021] 	<p>Enforceability of rights and obligations in a binding arrangement gives rise to at least one present obligation – By definition, a binding arrangement will contain at least one present obligation. This is an important principle which links to takeaway (E).</p>

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Takeaway	IPSASB Decisions on Revenue	Staff Views on the Implications for Transfer Expenses
D	<ul style="list-style-type: none"> • Adopt the principle from paragraph 12(a)(i), that enforceability of a binding arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the binding arrangement and hold the parties accountable to the satisfaction of stipulated obligations. [March 2021] • An entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable. [March 2021] 	<p>Enforceability can be demonstrated by various mechanisms – Enforceability is a key requirement for an arrangement to be a binding arrangement under the proposed transfer expense standard. An entity's considerations in its analysis of enforceability are also relevant for transfer expenses. In other words, a transfer provider should also consider various mechanisms and all relevant factors at transaction date to determine if it is able to enforce the terms within the binding arrangement.</p>
E	<ul style="list-style-type: none"> • Enforceability in a binding arrangement gives rise to a liability (deferred revenue) to the extent that the terms of the arrangement are not yet satisfied. [March 2021] 	<p>Enforceability gives rise to an asset for the transfer provider – From a transfer expense perspective, enforceability would give rise to an asset for the transfer provider, to the extent that the terms of the binding arrangement related to the resources already provided are not yet satisfied.</p>
F	<ul style="list-style-type: none"> • Retain revenue from performance obligations as a separate type of revenue. [March 2021] • Performance obligations are a subset of present obligations that embody a specific transfer of a distinct good or service to a purchaser or third-party beneficiary. [March 2021] 	<p>Performance obligations differ from present obligations – Constituents responding to the revenue EDs generally supported that performance obligations are different from present obligations (i.e., separate type of revenue transaction), and the distinction is useful from a revenue perspective. Staff highlight that the recognition and measurement principles are the same for both performance obligations and present obligations, and may result in different accounting depending on the specific terms of the binding arrangement.</p> <p>In comparison, some respondents to ED 72 have noted that this distinction does not provide useful information from a transfer provider perspective. Furthermore, the underlying principles proposed in ED 72 were no longer consistent with those in the revenue EDs (in particular, they are inconsistent with the accounting principles in ED 71).</p> <p>Staff acknowledge that the impact of this revenue decision on the proposed transfer expense accounting will depend on IPSASB discussions on:</p> <ul style="list-style-type: none"> • The usefulness of the distinction between performance obligations and present obligations in the proposed transfer expenses standard, and • Revisions required to achieve consistency between the principles in revenue and the principles in transfer expenses accounting.

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Takeaway	IPSASB Decisions on Revenue	Staff Views on the Implications for Transfer Expenses
G	<ul style="list-style-type: none"> Revise existing Application Guidance to state that, where there is objective evidence that a portion of consideration relates to the transfer of distinct goods or services to the purchaser/transfer provider or a third-party beneficiary, disaggregate the transaction price and account for the component(s) relating to the transfer of distinct goods or services in accordance with ED 70, then use ED 71 to account for any remaining component(s). If the portion is unclear, account for the transaction in accordance with ED 71. [March 2021] 	<p>Consideration not directly attributable to a specific component in the binding arrangement that relates to a transfer of distinct goods or services should be accounted for as a transaction without performance obligation (i.e., as a present obligation) – This decision is important from a revenue perspective to appropriately allocate transaction price to the revenue component(s) split between ED 70 and ED 71. Given the ED 72 feedback, the impact of this decision from the revenue project will depend on the IPSASB's future discussions on whether the distinction between performance obligations and present obligations is retained for transfer expense accounting.</p>

Application of Executory Contract Accounting Principles

Question

1. Does the IPSASB agree with staff's recommendations regarding the application of executory contract accounting principles?

Recommendations

2. Staff recommend that the IPSASB:
 - (a) *Confirm that executory contract accounting principles apply to performance obligations* – Both ED 70, *Revenue with Performance Obligations* and ED 72, *Transfer Expenses*, incorporate executory contract accounting principles for transactions with performance obligations.
 - (b) *Agree that executory contract accounting principles be applied to revenue with present obligations* – Applying executory contract accounting principles to revenue with present obligations would be consistent with the principle agreed at the March 2021 meeting that enforceability in a binding arrangement gives rise to a liability (deferred revenue) to the extent that the terms of the arrangement are not yet satisfied.
 - (c) *Agree that executory contract accounting principles be applied to transfer expenses with present obligations* – Applying executory contract accounting principles to transfer expenses with present obligations would be consistent with the IPSASB's decisions on enforceability and the definition of a binding arrangement in ED 70 as an arrangement that confers both enforceable rights and obligations on the parties to the arrangement.
3. The implications of these recommendations are:
 - (a) *At initial recognition* – Applying executory contract accounting principles to revenue and transfer expenses with present obligations will mean that the transfer provider and the transfer recipient will **not** recognize an asset and a liability when they enter into a binding arrangement. Items will only be recognized once the obligations in the binding arrangement begin to be satisfied (i.e., once the binding arrangement ceases to be executory).
 - (b) *For subsequent recognition* – Applying executory contract accounting principles to transfer expenses with present obligations will mean that, unlike the proposals in ED 72, **recognition of an expense will be deferred** until the transfer recipient has satisfied its obligations. This will also align the accounting of transfer expenses **without** performance obligations and transfer expenses **with** performance obligations.

Background

4. As discussed in [Agenda Item 1.2.2](#), respondents to ED 72 had concerns about specific elements of the proposed accounting for transfer expenses arising from binding arrangements. Particular areas of concern were:
 - (a) From the transfer provider's perspective, there is no difference in substance between a transfer expense with performance obligations and one without performance obligations. In both cases, the transfer provider is transferring resources to the transfer recipient to undertake the actions specified in the binding arrangement, without receiving anything directly in return. Respondents considered that, consistent with transfer expenses with performance obligations, a transfer

provider has an asset where it has transferred resources prior to the transfer recipient satisfying its present obligations.

- (b) Where a transfer provider transfers resources prior to the transfer recipient satisfying its obligations, the transfer provider continues to control those resources. For transfer expenses with present obligations, recognizing an expense immediately when the resources are transferred does not provide useful information nor a faithful representation of the economic events in the reporting period for users of the financial statements.
- (c) Practical difficulties exist, both with distinguishing between performance obligations and present obligations, and with applying the Public Sector Performance Obligation Approach (PSPOA), particularly in respect of monitoring performance.

Staff Comments on Constituent Feedback

- 5. Staff consider that respondents' comments regarding a transfer provider having an asset where it has transferred resources prior to the transfer recipient satisfying its obligations raise an important point. Staff consider that, in essence, respondents are suggesting that executory contract accounting principles can be applied to transfer expenses with binding arrangements.
- 6. The IASB Conceptual Framework⁴ indicates executory contracts are binding arrangements where neither party has satisfied their obligations:
 - (a) An entity's rights and obligations under the binding arrangement are recognized as a combined item, usually measured at zero.
 - (b) Once one party satisfies its obligation, the binding arrangement is no longer executory and both parties recognize this transaction.
 - (c) Satisfaction of one party's obligation does not negate the other party's obligation. As the outstanding obligation is no longer part of a combined item, this obligation (which is a right for the counterparty) is also recognized.
- 7. As a consequence of these comments, Staff explored the applicability of executory contract accounting principles to transfer expenses, while also considering the IPSASB's recent decisions, as discussed below.
- 8. Respondents' concerns about the accounting for transfer expenses with present obligations are consistent with the IPSASB's March 2021 decisions regarding binding arrangements:
 - (a) ED 70 defines a binding arrangement as an arrangement that confers both enforceable rights and obligations on both parties to the arrangement. A binding arrangement that imposes present obligations on the transfer recipient would therefore confer rights on the transfer provider. In line with respondents' comments above, this suggests that the immediate recognition of an expense when resources are transferred prior to the recipient satisfying their present obligation is not appropriate as the rights represent an asset.
 - (b) At its March 2021 meeting, the IPSASB decided that the principle of enforceability in a binding arrangement gives rise to a liability (deferred revenue) to the extent that the terms of the arrangement are not yet satisfied. The existence of a liability arising from the binding

⁴ The IASB *Conceptual Framework for Financial Reporting*

arrangement in these situations suggests that the transfer provider has a corresponding asset. This conclusion is again in line with respondents' comments.

9. Staff considered the implications of these decisions on the proposed accounting for transfer expenses, taking into account the comments made by respondents to ED 72. Staff noted that applying the executory contract accounting principles could provide a conceptual basis for addressing the issues identified by respondents.

Executory Contract Accounting Principles

10. The 2014 IPSASB *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the IPSASB Conceptual Framework) acknowledges that some binding arrangements are executory contracts⁵, but is silent on how to account for them.
11. In 2018, the IASB issued its updated Conceptual Framework. This describes an executory contract as “a contract, **or a portion of a contract**, that is equally unperformed—neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent”⁶ (emphasis added).
12. The key development in the 2018 IASB Conceptual Framework is that it now recognizes that an “executory contract establishes a **combined right and obligation** to exchange economic resources. The right and obligation are interdependent and cannot be separated. Hence, the combined right and obligation constitute a **single asset or liability**.”⁷ In its Basis for Conclusions, the IASB noted that it expects many executory contracts to be initially measured at zero.⁸ (Emphasis added.)
13. The effect of applying this principle to revenue and transfer expenses is that the transfer provider would not recognize a payable and the transfer recipient would not recognize a receivable when they first enter into the binding arrangement. **In other words, while the binding arrangement is executory, no assets or liabilities are recognized.**
14. Once either party fulfils its obligations under the contract, the contract is no longer executory.
 - (a) Where an entity is the first to satisfy its obligations, that performance is the event that changes the entity's combined right and obligation into a right to receive an economic resource. That right is an asset.
 - (b) If the other party is the first to satisfy its obligations, that performance is the event that changes the entity's combined right and obligation into an obligation to transfer an economic resource. That obligation is a liability.⁹
15. When one part of the combined right and obligation is satisfied, this requires the recognition of the remaining right or obligation, which may also undergo a change in its nature. For example, at the commencement of a binding arrangement, an entity may have a right to receive goods and an obligation to transfer cash. If the entity transfers the cash before the goods are delivered, it retains the right to receive the goods, and that right includes a right to a refund if the goods are not delivered.
16. The application of these accounting principles gives the following outcomes:

⁵ The IPSASB Conceptual Framework, BC5.5

⁶ The IASB Conceptual Framework, 4.56

⁷ The IASB Conceptual Framework, 4.57

⁸ The IASB Conceptual Framework, BC4.87

⁹ See IASB Conceptual Framework, 4.58.

- (a) When the transfer recipient satisfies its obligations first, this gives rise to:
 - (i) An asset and related revenue for the transfer recipient; and
 - (ii) A liability and related expense for the transfer provider.
- (b) When the transfer provider satisfies its obligations first by transferring economic resources (e.g., cash) in advance of the transfer recipient satisfying its obligations, this gives rise to:
 - (i) A liability and a related asset (resources received) for the transfer recipient; and
 - (ii) An asset and the derecognition of the resources transferred for the transfer provider.
- 17. Staff highlight that executory contract accounting principles are currently applied throughout IPSAS, for example IPSAS 9, *Revenue from Exchange Transactions*, and IPSAS 41, *Financial Instruments*.
- 18. Application of executory contract accounting principles may need to vary by transaction to reflect the specific nature of the transaction and the rights and obligations in a specific binding arrangement. Staff will develop detailed proposals for future meetings.
- 19. Revenue from transactions without binding arrangements is not covered in this paper, as executory contract accounting principles are not applicable without a binding arrangement. Executory contract accounting principles only apply where there are mutually agreed interdependent and enforceable rights and obligations for the party. This can only arise through a binding arrangement.

Analysis

Executory Contract Accounting Principles for Performance Obligations – Revenue and Transfer Expenses

- 20. ED 70 follows IFRS 15, *Revenue from Contracts with Customers*, by incorporating executory contract accounting principles. No items are recognized if no party in a binding arrangement has satisfied its stated obligations; the arrangement remains executory. The transfer recipient recognizes revenue only when it has satisfied its performance obligations, at this point the arrangement is no longer executory. Satisfaction of the stated obligations may be at a different time from the receipt of resources:
 - (a) If the entity receives resources (e.g., cash) prior to satisfying its stated obligations, it recognizes a liability (deferred revenue) along with an asset for the resources received.
 - (b) Conversely, if the entity has satisfied its stated obligations prior to receiving the resources, it recognizes an asset and revenue.
- 21. ED 72 is based on ED 70, and therefore also incorporates executory contract accounting principles in its proposed accounting for transfer expenses with performance obligations:
 - (a) No items are recognized if no party has satisfied its stated obligations; the arrangement remains executory.
 - (b) If the transfer provider transfers resources before the transfer recipient satisfies its obligations, the provider recognizes an asset and derecognizes the resources transferred.
 - (c) If the transfer recipient satisfies its obligations before resources are transferred, the transfer provider recognizes a liability and an expense.
- 22. ED 70 and the PSPOA approach in ED 72 explicitly address transactions to provide goods or services to third-party beneficiaries. IFRS 15 also applies to arrangements to provide goods or services to

third-party beneficiaries. Many suppliers (e.g., online retailers) will deliver goods to the purchaser or another party nominated by the purchaser. The final recipient of the goods or services does not affect the combined rights and obligations of the parties to the arrangement.

23. This analysis demonstrates that executory contract accounting principles apply to performance obligations in the public sector.

Executory Contract Accounting Principles for Present Obligations – Revenue

24. ED 71 addresses revenue transactions from binding arrangements with present obligations that are not performance obligations. As discussed in March 2021, performance obligations are a subset of present obligations, which do not require the transfer of a distinct good or service to an external party.
25. Under both ED 71 and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*, the first step in revenue recognition is to determine whether the entity has an asset. Revenue from transactions with present obligations arises from transactions with binding arrangements. For these transactions, applying executory contract accounting principles provides clarity that no asset exists prior to one of the parties satisfying its obligations.
26. The IPSASB confirmed in March 2021 that binding arrangements contain at least one present obligation. Binding arrangements include rights and obligations for the parties to the arrangement. Staff considered whether these rights and obligations are interdependent and cannot be separated; if so, the binding arrangement will establish a combined right and obligation.
27. The provision of goods or services to the counterparty is not a requirement for executory contract accounting principles to be applicable. So long as the reporting entity has rights and obligations arising from a binding arrangement that are interdependent and cannot be separated, staff consider that executory contract accounting principles can be applied.
28. The argument that executory contract accounting principles are applicable to present obligations under a binding arrangement is strengthened by the fact that the revenue recognition principle (that revenue is only recognized when it has been earned through the satisfaction of the obligations in the binding arrangement) is the same whether the binding arrangement includes performance obligations or present obligations.
29. Under ED 71, where no party has satisfied their obligations, neither an asset nor a liability is recognized. The binding arrangement remains executory. An entity recognizes revenue arising from a binding arrangement with a present obligation only when it has satisfied that obligation. As with revenue with performance obligations, the receipt of economic resources may occur at a different time to the recognition of revenue:
- (a) If the entity receives resources prior to satisfying the obligation, the entity recognizes a liability for its future performance, as well as the asset for the resources received.
 - (b) If the entity satisfies the obligation prior to receiving resources, it recognizes revenue and an asset for the resources it is entitled to receive as a result of its performance.
30. Staff consider that this analysis demonstrates that executory contract accounting principles and concepts are relevant to transactions that give rise to revenue with present obligations.

Executory Contract Accounting Principles for Present Obligations – Transfer Expenses

31. This paper does not address transfer expenses that arise without a binding arrangement as executory contract accounting principles are not applicable without a binding arrangement.
32. Transfer expenses arising from a binding arrangement may impose performance obligations or present obligations on transfer recipients. As discussed earlier, transfer expenses with performance obligations are accounted for using executory contract accounting principles.
33. Similarly, revenue with present obligations is accounted for using executory contract accounting principles. However, the proposals in ED 72 for the corresponding transfer expenses are not symmetrical with ED 71, as the IPSASB considered that an entity had no asset for the recipients' present obligations.
34. As noted above, some respondents consider that a transfer provider would have an asset where it transfers resources to a transfer recipient prior to the recipient satisfying its obligations. In reviewing these comments, Staff noted that the proposals in ED 72 are inconsistent with the definition of a binding arrangement as "an arrangement that confers both enforceable rights and obligations" and with the IPSASB's decision regarding the enforceability of binding arrangements. This suggests that the transfer providers' rights under the arrangement meet the definition of an asset.
35. Executory contract accounting principles can be applied to binding arrangements that give rise to revenue with present obligations. As the transfer provider is a party to that same binding arrangement, it follows that executory contract accounting principles can also be applied to the corresponding transfer expense. The transfer providers' rights and obligations under the binding arrangements are interdependent and cannot be separated.
36. Further work is required to fully establish the nature of the transferer provider's right (as part of the combined right and obligation and subsequently). However, at its March 2021 meeting the IPSASB confirmed that binding arrangements are always enforceable. Because binding arrangements are enforceable, a right to a refund will exist and will satisfy the definition of an asset, as some respondents commented.
37. A return obligation may not be an explicit term in a binding arrangement, but may be an implicit term. The IASB *Conceptual Framework* notes the existence of implicit terms in a contract¹⁰. In many jurisdictions, the legal framework interprets binding arrangements as imposing an obligation on an entity to provide a refund in the event that it receives resources but does not satisfy its obligations.
38. Applying executory contract accounting principles to a binding arrangement with a present obligation would mean adopting the same accounting principles as for transfer expenses with performance obligations and as for revenue with present obligations:
 - (a) No items are recognized if neither party has satisfied their obligations (the arrangement remains executory).
 - (b) Where the transfer provider transfers resources prior to the transfer recipient satisfying its obligations, the provider recognizes an asset and derecognizes the resources transferred.
 - (c) Where the transfer recipient satisfies its obligations before resources are transferred, the transfer provider recognizes a liability and an expense.

¹⁰ IASB Conceptual Framework, 4.60

Decision Required

39. Does the IPSASB agree with the Staff recommendations?

Appendix 1 – Examples of the Application of Executory Contract Accounting Principles

Scenario 1 – Transfer Provider Transfers Resources Prior to Transfer Recipient Satisfying Obligations

Step 1 – Signing of Binding Arrangement

The transfer provider and the transfer recipient enter into a binding arrangement. The transfer provider agrees to provide CU 100,000. The transfer recipient agrees to deliver vaccines to the local population. Depending on the terms of the binding arrangement, the obligation to deliver vaccines could be a performance obligation or a present obligation.

At this point, neither party has satisfied their obligations. Neither party recognizes an asset or liability.

Step 2 – Cash Transfer by Transfer Provider

The transfer provider transfers CU 100,000 to the transfer recipient. At this stage, the transfer recipient has not delivered any vaccines.

Transfer Provider				Transfer Recipient			
Dr	Asset	100,000		Dr	Cash	100,000	
	Cr	Cash	100,000		Cr	Liability	100,000

Step 3 – Vaccines Delivery by Transfer Recipient

The transfer recipient delivers the vaccines to the local population. The transfer provider has evidence that the delivery has taken place.

Transfer Provider				Transfer Recipient			
Dr	Expense	100,000		Dr	Liability	100,000	
	Cr	Asset	100,000		Cr	Revenue	100,000

Scenario 2 – Transfer Recipient Satisfies Obligations Prior to Transfer Provider Transferring Resources

Step 1 – Signing of Binding Arrangement

The transfer provider and the transfer recipient enter into a binding arrangement. The transfer provider agrees to provide CU 100,000. The transfer recipient agrees to deliver vaccines to the local population. Depending on the terms of the binding arrangement, the obligation to deliver vaccines could be a performance obligation or a present obligation.

At this point, neither party has satisfied their obligations. Neither party recognizes an asset or liability.

Step 2 – Vaccines Delivery by Transfer Recipient

The transfer recipient delivers the vaccines to the local population. The transfer provider has evidence that the delivery has taken place.

Transfer Provider				Transfer Recipient			
Dr	Expense	100,000		Dr	Asset	100,000	
	Cr	Liability	100,000		Cr	Revenue	100,000

Step 3 – Cash Transfer by Transfer Provider

The transfer provider transfers CU 100,000 to the transfer recipient. At this stage, the transfer recipient has not delivered any vaccines.

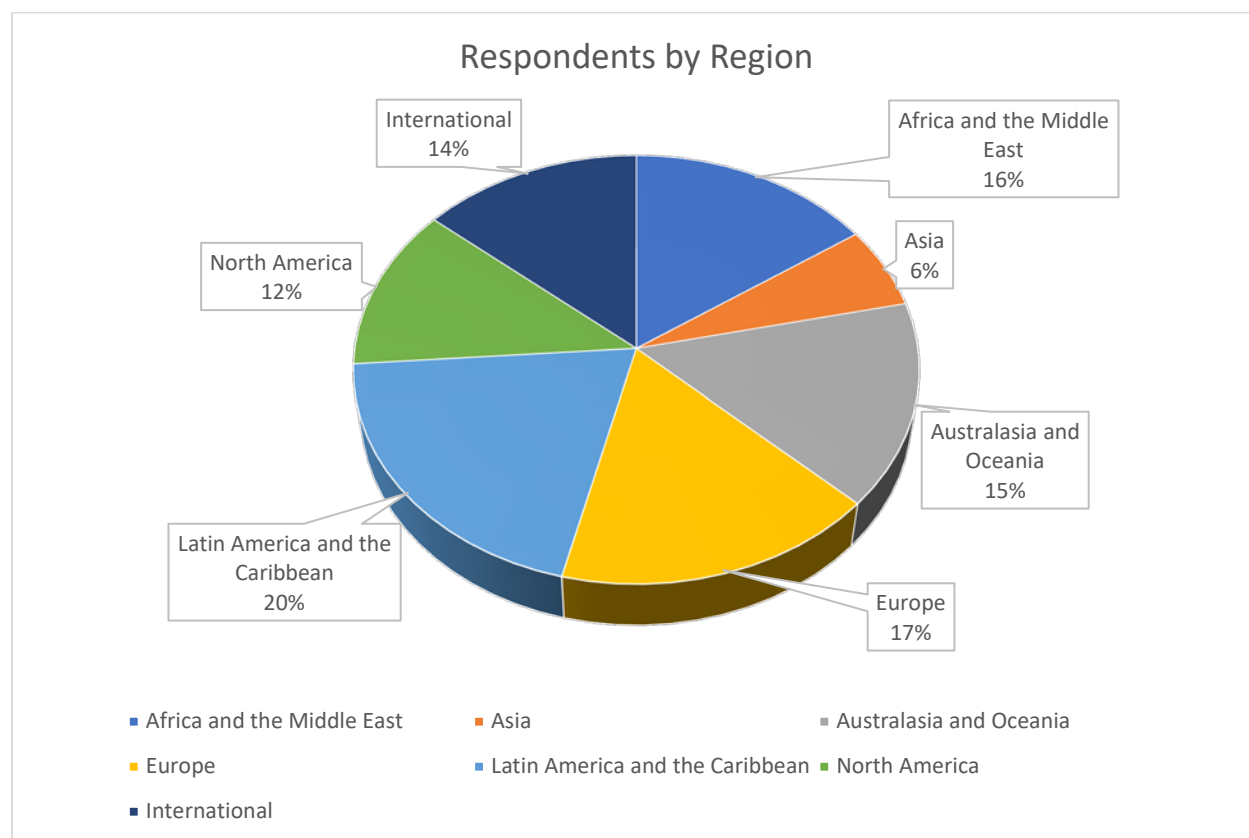
Transfer Provider				Transfer Recipient			
Dr	Liability	100,000		Dr	Cash	100,000	
	Cr	Cash	100,000		Cr	Asset	100,000

Supporting Document – Exposure Draft (ED) 72, *Transfer Expenses: Analysis of Respondents by Region, Function and Language*

Appendix A: Analysis of Respondents by Region, Function and Language

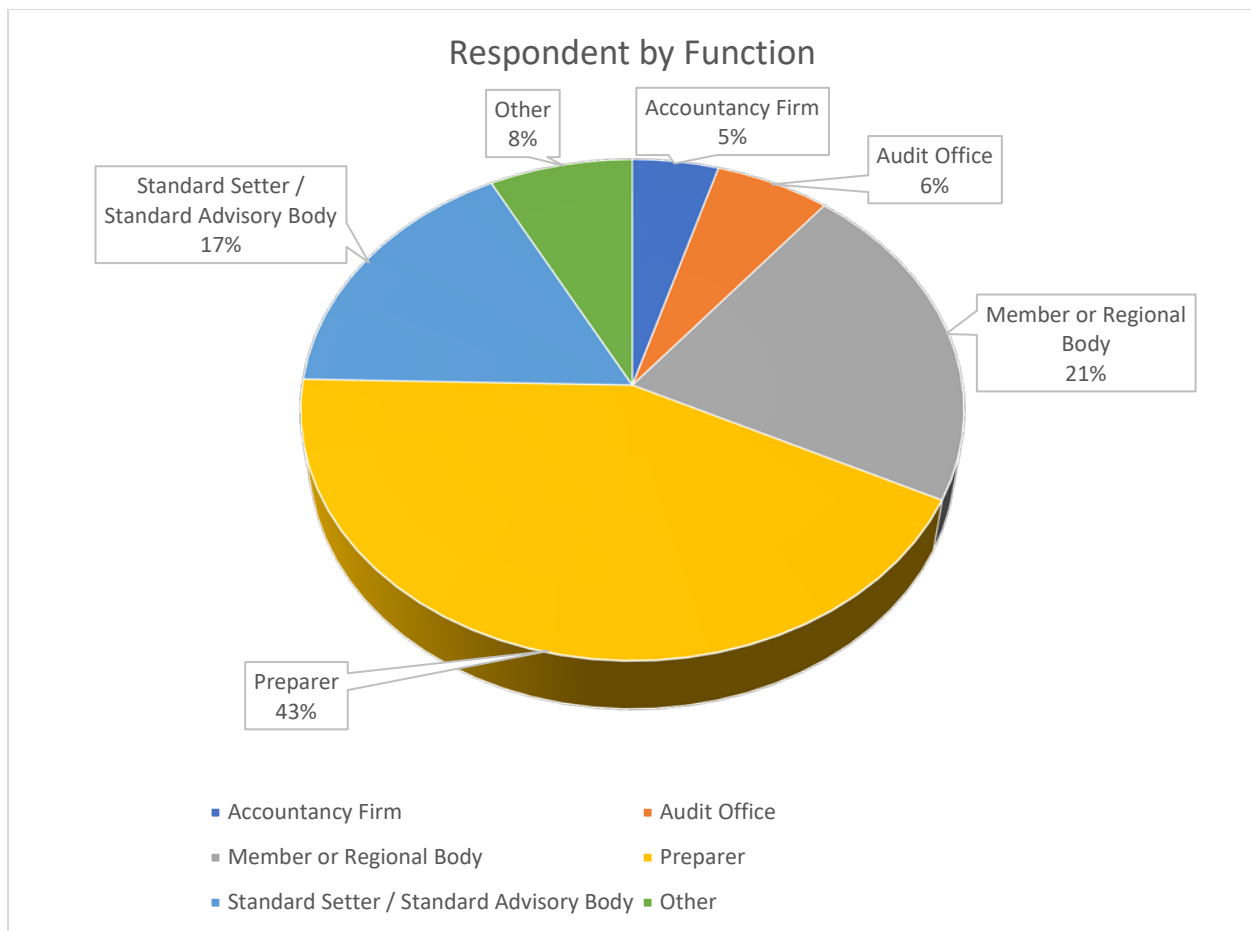
Geographic Breakdown

Region	Comment letter(s)	Total Respondents
Africa and the Middle East	11, 14, 17, 21, 23, 26, 39, 42, 45, 55	10
Asia	20, 22, 56, 61	4
Australasia and Oceania	01, 02, 10, 15, 19, 46, 58, 60, 63, 65	10
Europe	03, 04, 05, 06, 07, 12, 16, 18, 24, 41, 62	11
Latin America and the Caribbean	27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 40, 59	13
North America	08, 09, 13, 25, 44, 47, 48, 64	8
International	38, 43, 49, 50, 51, 52, 53, 54, 57	9
Total		65



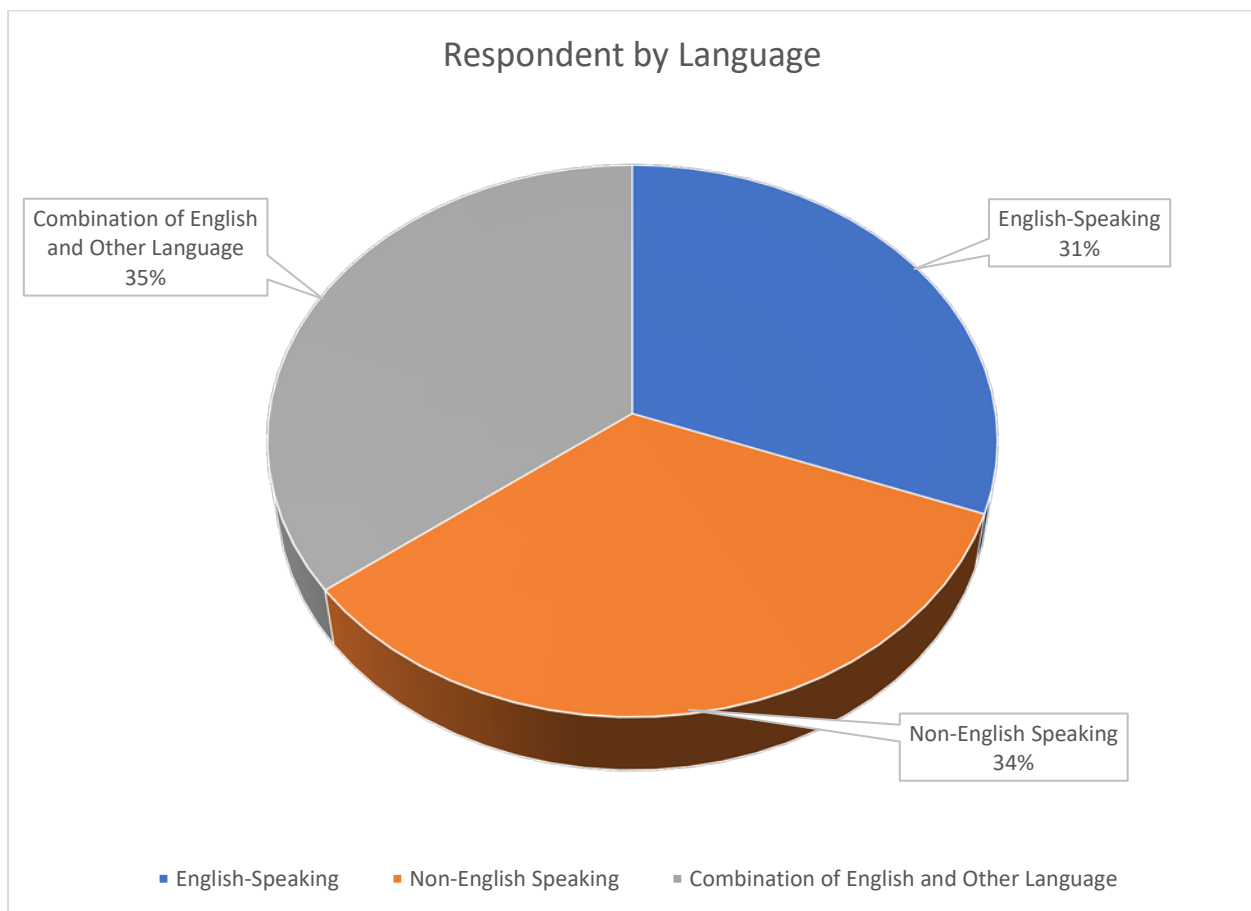
Functional Breakdown

Function	Comment letter(s)	Total Respondents
Accountancy Firm	25, 38, 43	3
Audit Office	08, 44, 58, 64	4
Member or Regional Body	07, 15, 17, 18, 20, 24, 26, 39, 40, 41, 42, 45, 56, 61	14
Preparer	01, 02, 09, 14, 16, 19, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 47, 49, 50, 51, 52, 53, 54, 57, 59, 60, 63	28
Standard Setter / Standard Advisory Body	04, 05, 06, 10, 11, 13, 21, 22, 46, 48, 55	11
Other	03, 12, 23, 62, 65	5
Total		65



Linguistic Breakdown

Language	Comment letter(s)	Total Respondents
English-Speaking	01, 02, 10, 11, 15, 18, 19, 21, 24, 25, 39, 41, 46, 48, 58, 60, 62, 63, 64, 65	20
Non-English Speaking	03, 04, 05, 06, 14, 20, 22, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 40, 56, 59, 61	22
Combination of English and Other Language	07, 08, 09, 12, 13, 16, 17, 23, 26, 38, 42, 43, 44, 45, 47, 49, 50, 51, 52, 53, 54, 55, 57	23
Total		65



Appendix B: List of Respondents

Comment Letter #	Respondent	Country	Function
01	New Zealand Film Commission	New Zealand	Preparer
02	NZ On Air	New Zealand	Preparer
03	Tiago Melo	Portugal	Other
04	Comissao de Normalizacao Contabilistica (CNC)	Portugal	Standard Setter / Standard Advisory Body
05	Schweizerisches Rechnungslegungsgremium für den öffentlichen Sektor (SRS)	Switzerland	Standard Setter / Standard Advisory Body
06	Conseil de Normalisation des Comptes Publics (CNoCP)	France	Standard Setter / Standard Advisory Body
07	Accountancy Europe	Regional / International	Member or Regional Body
08	Alberta (Office of the Auditor General of Alberta)	Canada	Audit Office
09	Treasury Canada	Canada	Preparer
10	New Zealand Accounting Standards Board (NZASB) of the External Reporting Board (XRB)	New Zealand	Standard Setter / Standard Advisory Body
11	Public Sector Accounting Standards Board (PSASB Kenya)	Kenya	Standard Setter / Standard Advisory Body
12	Task Force IRSPM A&A SIG, CIGAR Network, EGPA PSG XII	Regional / International	Other
13	Public Sector Accounting Board (PSAB Canada)	Canada	Standard Setter / Standard Advisory Body
14	Accrual Accounting Center	Saudi Arabia	Preparer
15	Joint - CPA Australia, Chartered Accountants Australia and New Zealand (CAANZ)	Regional / International	Member or Regional Body
16	European Commission	Regional / International	Preparer
17	Institute of Chartered Accountants (Ghana) (ICAG)	Ghana	Member or Regional Body
18	Association of Chartered Certified Accountants (ACCA)	United Kingdom	Member or Regional Body
19	Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Australia	Preparer
20	Japanese Institute of Certified Public Accountants (JICPA)	Japan	Member or Regional Body
21	Accounting Standards Board (ASB South Africa)	South Africa	Standard Setter / Standard Advisory Body
22	Korea Institute of Public Finance (GAFSC)	Korea	Standard Setter / Standard Advisory Body
23	African Union Commission (AUC)	Regional / International	Other
24	Chartered Institute of Public Finance and Accountancy (CIPFA)	United Kingdom	Member or Regional Body

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Comment Letter #	Respondent	Country	Function
25	KPMG (CA)	Canada	Accountancy Firm
26	Pan African Federation of Accountants (PAFA)	Regional / International	Member or Regional Body
27	FOCAL (Foro de Contadurías Gubernamentales de América Latina) - Country of Brazil	Brazil	Preparer
28	FOCAL - Country of Chile	Chile	Preparer
29	FOCAL - Country of Colombia	Colombia	Preparer
30	FOCAL - Country of Costa Rica	Costa Rica	Preparer
31	FOCAL - Country of Ecuador	Ecuador	Preparer
32	FOCAL - Country of El Salvador	El Salvador	Preparer
33	FOCAL - Country of Guatemala	Guatemala	Preparer
34	FOCAL - Country of Honduras	Honduras	Preparer
35	FOCAL - Country of Mexico	Mexico	Preparer
36	FOCAL - Country of Paraguay	Paraguay	Preparer
37	FOCAL - Country of Peru	Peru	Preparer
38	PricewaterhouseCoopers (PwC)	Regional / International	Accountancy Firm
39	Botswana Institute of Chartered Accountants (BICA)	Botswana	Member or Regional Body
40	Conselho Federal de Contabilidade (CFC)	Brazil	Member or Regional Body
41	Institute of Chartered Accountants in England and Wales (ICAEW)	United Kingdom	Member or Regional Body
42	Institute of Chartered Accountants of Nigeria (ICAN)	Nigeria	Member or Regional Body
43	Ernst & Young GmbH	Regional / International	Accountancy Firm
44	Auditor General of Canada	Canada	Audit Office
45	The National Board of Accountants and Auditors (NBAA)	Tanzania, United Republic of	Member or Regional Body
46	Australian Accounting Standards Board (AASB)	Australia	Standard Setter / Standard Advisory Body
47	British Columbia (Office of the Comptroller General)	Canada	Preparer
48	Governmental Accounting Standards Board (GASB)	United States of America	Standard Setter / Standard Advisory Body
49	UN - FAO - Food and Agriculture Organization of the United Nations	Regional / International	Preparer
50	UN - IOM - International Organization on Migration	Regional / International	Preparer
51	UN - United Nations Secretariat	Regional / International	Preparer

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Comment Letter #	Respondent	Country	Function
52	UN - UN System TFAS	Regional / International	Preparer
53	UN - UNICEF - United Nations Children's Fund	Regional / International	Preparer
54	UN - WIPO - World Intellectual Property Organization	Regional / International	Preparer
55	Financial Reporting Council of Nigeria (FRC)	Nigeria	Standard Setter / Standard Advisory Body
56	The Malaysian Institute of Certified Public Accountants (MICPA)	Malaysia	Member or Regional Body
57	ITER Organization	Regional / International	Preparer
58	Office of the Auditor General (New Zealand)	New Zealand	Audit Office
59	Secretaría de Hacienda y Crédito Público - Gobierno de México	Mexico	Preparer
60	Treasury New Zealand	New Zealand	Preparer
61	Malaysian Institute of Accounting (MIA)	Malaysia	Member or Regional Body
62	Kalar Consulting	United Kingdom	Other
63	Auckland Council	New Zealand	Preparer
64	U.S. Government Accountability Office	United States of America	Audit Office
65	David Hardidge	Australia	Other

Appendix C: Summary of responses for each Specific Matter for Comment (SMC)

SMC 1:

The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15.

Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?

SMC 2:

Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*?

If not, what distinction, if any, would you make?

SMC 3:

Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?

SMC 4:

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:

A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and

- (a) A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach.

The rationale for this decision is set out in paragraphs BC16–BC34.

Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?

SMC 5:

If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.

SMC 6:

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:

A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and

- (b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up?

Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?

If not, how would you recognize and measure transfer expenses without performance obligations?

SMC 7:

As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, *Revenue without Performance Obligations*, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue.

Do you agree that this lack of symmetry is appropriate? If not, why not?

SMC 8:

This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal?

If not, why not? What alternative treatment would you propose?

SMC 9:

This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*, to the extent that these are appropriate.

Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,

Do you think there are any additional disclosure requirements that should be included?

Are any of the proposed disclosure requirements unnecessary?

SMC*	Agree		Partially agree		Disagree		No comment	
Comment letters	#	%	#	%	#	%	#	%
1	34	52%	13	20%	14	22%	4	6%
2	38	58%	8	12%	16	25%	3	5%
3	22	34%	22	34%	17	26%	4	6%
4	34	52%	11	17%	14	22%	6	9%
5**	41	63%	7	11%	5	8%	12	18%
6	33	51%	18	28%	8	12%	6	9%
7	28	43%	8	12%	18	28%	11	17%
8	39	60%	7	11%	9	14%	10	15%
9	25	39%	12	18%	16	25%	12	18%

* Note that percentages have been rounded to sum to 100%.

** SMC 5 sought feedback on practical difficulties. In the analysis, the following approach has been taken:

- Agree = Difficulties identified
- Partially agree = Some / minor difficulties identified
- Disagree = No difficulties identified