Agenda Item 4: Revenue and Non-Exchange Expenses

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IPSASB Meeting
September 20-23, 2016
Toronto, Canada
Agenda Item 4.1.1: Project Management (1)

- Instructions-June 2016 and before
  - New structure
  - Focus on Category B transactions – transactions with performance obligations but not with IRFS 15 characteristics
  - Delete term “symmetry”
Applying the IPSAS 15 performance based approach in the public sector
Agenda Item 4.1.2 Project Management (2)

• Decisions-June and before
  – Ask constituents: Implementation issues with IPSAS 23
  – Include tax expenditures as potential project in next work plan consultation
  – Request comments on IFRS 15 approach as way to resolve IPSAS 23 issues
  – Reference to convergence with IFRS 15
### Agenda Item 4.1.3: Project Management (3)

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Milestone</th>
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<tr>
<td>December 2016</td>
<td>Approve Consultation Paper (CP)</td>
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<tr>
<td>September 2017</td>
<td>First review of responses to CP</td>
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<tr>
<td>June 2018</td>
<td>Approval of Exposure Drafts (EDs)</td>
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<tr>
<td>March 2019</td>
<td>First review of responses to EDs</td>
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<tr>
<td>December 2019</td>
<td>Approval of IPSASs</td>
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Decisions Required at Meeting

Decision Items

• Agenda Item 4.2.1–Structure of Consultation Paper
• Agenda Item 4.2.2–Performance Obligations and Enforceability (consider prior to Chapter 3)
Other supporting items

• Agenda Item 4.3.1–4.3.6: Chapters 1-5 and Appendix A on Preparer Interviews
Revenue and Non-Exchange Expenses

Agenda Item 4.2.1 Structure of Consultation Paper (1)

- Chapter One: Introduction
  - Drivers, Scope and Structure
- Chapter Two: Current Revenue Recognition Standards
  - IPSASB Literature
    - IPSAS 9 and IPSAS 11
    - IPSAS 23
  - IASB Literature
    - IFRS 15
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Agenda Item 4.2.1: Structure of Consultation Paper

(2)

- Chapter Three: Recognition Options for Public Sector Specific Revenue Transactions
  - Public Sector Performance Obligation Approach
  - Exchange/Non-Exchange Approach-Revised IPSAS 23

- Chapter Four: Non-Exchange Expenses –Initial Recognition
  - Scope
  - Expanded IPSAS 19 Approach
  - Public Sector Performance Obligation Approach
  - Reverse IPSAS 19 Approach
Agenda Item 4.2.1 Structure of Consultation Paper (1)

- Chapter Five: Measurement
  - Non-Contractual/Statutory Receivables
  - Non-Contractual/Statutory Payables
- Appendices?
Agenda Item 4.3.1 Chapter 1: Introduction

- Opening paragraphs (1.1-1.3)
- Drivers for projects (1.4-1.11)
  - IPSAS 23 Implementation Issues (1.8-1.9)
  - Convergence with IASB Literature following issue of IFRS 15 (1.10-1.11)
- Scope and Interaction with Other Projects and Pronouncements (1.12-1.14)
- Consultation Paper Structure (1.15-1.20)
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Agenda Item 4.3.2 Chapter 2: Current Revenue Recognition Standards (1)

- Introduction (2.1)
- IPSAS Literature (2.2-2.16)
  - Definitions (2.2)
  - Non-Exchange Transactions (2.3-2.10)
    - IPSAS 23, Revenue from Non-Exchange Transactions (Taxes & Transfers) (2.3-2.10)
  - Exchange Transactions (2.11-2.16)
    - IPSAS 9, Revenue from Exchange Transactions (2.11-2.13)
    - IPSAS 11, Construction Contracts (2.14-2.16)
IASB Literature
  – IFRS 15, *Revenue from Contracts with Customers* (2.17-2.28)
    • Five Step Revenue Model (2.26)
Categorization of Public Sector Transactions (2.29-2.30)
Approach to Category C Transactions (2.31)
PV 1/SMC 1: Replace IPSASs 9 & 11 with new IPSAS drawn from IFRS 15
PV 2: Address Category A transactions in revised IPSAS 23 or standard adopting IPSAS 23 principals
MFC 1: Does IPSASB agree with preliminary views
Agenda Item 4.2.2: Performance Obligations and Enforceability (1)

- Enforceability a key aspect of Public Sector Performance Obligation Approach
  - Legal and equivalent binding arrangements
  - Agreed performance obligations enforceable

- IFRS 15
  - Step 1: *Entity identifies contract with customer*
  - Acknowledgement of implied terms/business practices in IFRS Basis for Conclusions
Agenda Item 4.2.2: Performance Obligations and Enforceability (2)

• Conceptual Framework
  – Legally binding and non-legally binding obligations
  – Characteristics of non-legally binding obligations
    • Indication to other party of acceptance of certain responsibilities
    • Indication gives rise to valid expectation on part of other party
    • Little or no realistic alternative to avoid

• Framework terminology unhelpful

• Does economic compulsion imply enforceability?
Agenda Item 4.3.3: Chapter 3: Recognition Options for Public Sector Specific Revenue Transactions (1)

- Introduction (3.1)
- The Public Sector Performance Obligation Approach (3.2-3.64)
- MFC 2: Re-express 8 characteristics so that analysis mirrors 5 Step Approach?
  - Follows on from Chapter 2; or
  - Using 8 characteristics emphasizes public sector circumstance.
- SMC 2: Public Sector Performance Obligation approach only appropriate when agreed performance obligations are “identifiable and specific”
- SMC 3: Estimated cost of delivery approach appropriate for allocating total amount of funding across performance obligations
- SMC 4: Trigger for recognition satisfaction of performance obligations
The Exchange/Non-Exchange Approach (3.65-3.84)

- Applying the Exchange/Non-Exchange Approach (3.66-3.84)
  - Time Requirements (3.67-3.73)
  - MFC 4: Preliminary View on time requirements?
  - SMC 5: (a) Other resources/other obligations or (b) presentational mechanisms
  - Capital Grants (3.74)
  - Advanced Receipts (3.75-3.76)
  - Services In-Kind (3.77-3.78)
  - MFC 5: Preliminary View on above?
Advantages of public sector performance obligation approach for revenue transactions (3.79-3.81)

Disadvantages of public sector performance obligation approach for revenue transactions (3.82-3.84)

MFC 6: Preliminary view on which approach supported

SMC 6: Do respondents favor performance obligation approach or exchange/non-exchange approach?
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Agenda Item 4.3.4: Chapter 4: Non-Exchange Expenses-Initial Recognition (1)

- Introduction (4.1)
- The Exchange/Non-Exchange Classification of Expenses (4.2-4.5)
- The Non-Exchange Expense Transactions in Scope (4.6-4.10)
- Approaches (4.11)
  - Expanded IPSAS 19 Approach
  - Public Sector Performance Obligation Approach
  - IPSAS 23 Reverse Approach
• The Expanded IPSAS 19 Approach (4.12-4.17)
  – PV 3: Collective goods do not give rise to obligating events
  – PV 4: Other transfers in kind do not give rise to obligating events
  – Advantages of Expanded IPSAS 19 Approach (4.18-4.19)
  – Disadvantages of Expanded IPSAS 19 Approach (4.20-4.23)
• The Public Sector Performance Obligation Approach (4.24-4.35)
• MFC 7: Re-express 8 characteristics so that analysis mirrors 5 Step Approach?
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Agenda Item 4.3.4: Chapter 4: Non-Exchange Expenses-Initial Recognition (3)

- Advantages of public sector performance obligation approach (4.36)
- Disadvantages of public sector performance obligation approach (4.37-4.40)

- IPSAS 23 Reverse Approach (4.41-4.42)
- MFC 8: Revisit explanation of remedies in event of breach of condition and breach of restriction?
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Agenda Item 4.3.4: Chapter 4: Non-Exchange Expenses-Initial Recognition (4)

- Advantages of IPSAS 23 Reverse Approach (4.44)
- Disadvantages of IPSAS 23 Reverse Approach (4.45-4.48)

• MFC 9: Does IPSASB want to provide a preliminary view?
• SMC 7: Which of three models supported; or identify and provide details of other approach favored
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Agenda Item 4.3.5: Chapter 5: Measurement (1)

• Introduction (5.1)
• Non-Contractual/Statutory Receivables (5.2-5.18)
  – Current requirements and Guidance (5.4 & Diagram One)
  – Measurement at Initial Recognition (5.5-5.9)

*MFC 10: Does IPSASB want to provide a preliminary view?

*SMC 8: Do you agree with option (a) – best estimate of discounted cash flows – or option (b) – face value and impairment for amount expected to be uncollectible?
Agenda Item 4.3.5: Chapter 5: Measurement (2)

- Subsequent Measurement (5.10-5.18)
- Current position and proposed potential approaches (5.10-5.11)
- Approach 1 – Fair Value or Market Value Approach (5.12-5.14)
- Approach 2 – Amortized Cost Approach (5.15-5.16)
- Approach 3 – Cost Approach (5.17-5.18)

- **MFC 11:** Are these the three approaches that CP should identify? Should Approach 1 be identified? Does IPSASB want to provide a preliminary view?
- **SMC 9:** Which of approaches do you support?
Non/contractual/statutory payables (5.19-5.27)
- Current position and proposed potential approaches (5.21-5.27)
- Approach 1 – Best Estimate for Settlement Approach (5.24-5.25)
- Approach 2 – Amortized Cost Approach (5.26)
- Approach 3 – Hybrid Approach (5.27)

MFC 12: Are these the three options to identify. Do members agree with staff view advocating Approach 1?

SMC 10: Which of 3 approaches supported; or alternative?
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