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Chairman
IPSASB

Submitted online

Brussels, 22 October 2020

Subject: Accountancy Europe Responds to IPSASB ED 70 - 72

Dear Sir or Madam,

We have pleasure in enclosing our response on the public consultation of IPSASB Exposure Drafts 70 to 72.

We continue to support the simultaneous release of the three EDs on the grounds of their interconnectivity. We also continue to support the approach of splitting of revenue and expenses into three separate (draft) standards due to their complexity.

That being said, the EDs are still complex, with many definitions and concepts that need to be borne in mind when moving from one (draft) standard to another. We call on the IPSASB to further review the structure of the three (draft) standards with a view to simplifying the language and structure as much as possible. The IPSASB should also ensure that stakeholders searching for a particular issue have the relevant information to hand in the relevant standard, with as little need as possible to refer to other standards.

As mentioned, the (draft) standards contain a lot of terminology, much of which is new in IPSAS. Unfortunately, some of these (particularly '*present obligations*' and '*performance obligations*') are similar in name and concept, which hampers initial understanding of the (draft) standards. Of more concern is the use of the term '*performance obligation*' (*Public Sector Performance Obligation Approach* – PSPOA) in ED 70 and ED 72 but with different scope. We feel that this is likely to result in considerable confusion, especially in the early years of implementation.

We agree with classifying revenue in the (draft) standards into:

- **revenue with performance obligations**
- **without performance obligation but with present obligations and**
- **without performance obligations and present obligations.**

We also support the recognition and measurement criteria and proposed accounting treatments specified in the draft standards.

However, we do feel that there should be stated an overriding principle - that revenue should be allocated as far as possible to match the related expenditure. However, we accept that for the purposes of this (draft) standard, the combination of a *specified activity* and *eligible expenditure* give

rise to *present obligations* and this should, in most cases, result in this overriding principle being observed.

Additionally, we also agree with the application of the PSPOA to transfer expenses and support the associated recognition and measurement criteria and proposed accounting treatments specified in the draft standard.

However, we see scope for *transfer expenses without a performance obligation* to mirror the revenue treatment in ED 71. As explained in our responses to ED 72 SMC 2,6 and 7, we believe that there are circumstances where the transfer provider is able to exert sufficient control over the recipient to create a *present obligation* and to ensure that the transfer is utilised in the manner specified in the *binding arrangement*.

In such circumstances, where the *present obligation* extends over more than one period of account, we believe that it could be appropriate for the transfer provider to recognise the expense as the *present obligation* is fulfilled, rather than immediately on loss of control of the funds – as is required in the draft standard. This would provide symmetry with the treatment of the revenue in the hands of the recipient, as specified in ED 71.

Please find below our detailed responses to the Specific Matters for Comment (SMC).

ED 70 REVENUE WITH PERFORMANCE OBLIGATIONS

ED70 SMC 1

This Exposure Draft is based on IFRS 15, Revenue from Contracts with Customers. Because in some jurisdictions public sector entities may not have the power to enter into legal contracts, the IPSASB decided that the scope of this Exposure Draft would be based around binding arrangements. Binding arrangements have been defined as conferring both enforceable rights and obligations on both parties to the arrangement.

Do you agree that the scope of this Exposure Draft is clear?

If not, what changes to the scope of the Exposure Draft or the definition of binding arrangements would you make?

1. Accountancy Europe agrees that it is appropriate to base the scope of this ED around *binding arrangements* as some public sector entities are legally prevented from entering into legal contracts.
2. We also agree with the definition of a *binding arrangement* as ‘*an arrangement that confers both enforceable rights and obligations on both parties to the arrangement*’. It can be seen from Paras 8-21 of the ED that the *binding arrangement* is a key concept and the starting point of the (draft) standard (and indeed of ED 71 - 72), albeit this is only explicitly stated for the first time in AG 7. It would be clearer to state this in the (draft) standard itself.
3. We believe that the guidance in respect of *binding arrangements* in the (draft) standard is sufficient for preparers to determine whether such an arrangement exists, especially in terms of its enforceability.
4. However, the different ways in which a *binding arrangement* can be enforced in the public sector, when compared to private sector contracts, is a key difference to IFRS 15.

5. Consequently, we believe that the ‘*Step 1: Identifying the Binding Arrangement*’ section should include a specific paragraph summarising the key guidance in AG13 to AG 24, making specific reference to the ‘*equivalent means*’ - such as sovereign powers and enforceability by withholding future funding. We would also make this point in respect of the *present obligations* section in ED 71.

ED70 SMC 2

This Exposure Draft has been developed along with [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations, and [draft] IPSAS [X] (ED 72), Transfer Expenses, because there is an interaction between them. Although there is an interaction between the three Exposure Drafts, the IPSASB decided that even though ED 72 defines transfer expense, ED 70 did not need to define “transfer revenue” or “transfer revenue with performance obligations” to clarify the mirroring relationship between the exposure drafts. The rationale for this decision is set out in paragraphs BC20–BC22.

Do you agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”?

If not, why not?

6. We agree with the IPSASB that the terms ‘*transfer revenue*’ and ‘*transfer revenue with performance obligations*’ need not be defined in the (draft) standards. The new approach taken in the (draft) standards make such definitions superfluous and, as stated by the IPSASB, their inclusion would lead to additional sub-sets of revenue. These would add little in the way of useful information, and could create confusion if disclosed separately.
7. The terms ‘*transfer revenue*’ or “*transfer revenue with performance obligations*” appear to be a bridge to the terminology in IPSAS 23. And in this context, it must be taken into account that the terms ‘*exchange revenue/expense*’ and ‘*non-exchange revenue/expense*’ are in widespread use in existing contracts and national requirements, and are likely to continue to be so for some time in the future.
8. For example, we are aware of some cases where the use of the term ‘*non-exchange revenue*’ is used to direct the accounting treatment and disclosure of revenue that, should substance over form be applied, would be treated as *revenue with performance obligations* under the new approach.
9. This can be the case where a transfer is received with conditions that would meet the criteria of the five step model to be treated as *revenue with performance obligations* but because the price set is low or symbolic, as required by law, the transfers are treated as ‘*non-exchange revenue*’.
10. It may therefore be necessary for the IPSASB to provide some specific implementation guidance and mapping to deal with the transition from using these terms to the approach proposed in ED 70-72.

ED70 SMC 3

Because the IPSASB decided to develop two revenue standards—this Exposure Draft on revenue with performance obligations and ED 71 on revenue without performance obligations—the IPSASB decided to provide guidance about accounting for transactions

with components relating to both exposure drafts. The application guidance is set out in paragraphs AG69 and AG70.

Do you agree with the application guidance?

If not, why not?

11. We believe that the guidance included in the (draft) standards does make clear the general principle of allocating the transaction price when a binding arrangement provides for both the delivery of specific goods and services and also includes an element of general support.
12. We also agree with the IPSASB's rebuttable presumption that the *binding arrangement* relates solely to the supply of goods \ services under a performance obligation unless there is a clear provision that only a portion of the consideration is to be returned in the event of a failure to fully complete the performance obligation.
13. However, from the point of view of implementation, we believe that additional guidance will be appropriate to deal with the practical challenges of applying the general principles of splitting *binding arrangements*. We would therefore recommend that the IPSASB canvas stakeholders for real life examples that can be used to demonstrate practical steps to deal with such splitting.

ED70 SMC 4

The IPSASB decided that this Exposure Draft should include the disclosure requirements that were in IFRS 15. However, the IPSASB acknowledged that those requirements are greater than existing revenue standards.

Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed?

If not, why not?

14. We agree with the IPSASB that the IFRS 15 disclosure requirements should be included in full in the (draft) standard. We are not aware that any of the IFRS 15 disclosures are considered superfluous in the private sector and see no specificities that would make them so in the public sector.
15. It is probable that not all disclosures will be relevant for all public sector entities but the qualitative characteristic of 'relevance' in the IPSASB Conceptual Framework will assist preparers in tailoring their disclosures to ensure that they are relevant for their organisations.
16. Additionally, considering the materiality of disclosures will assist preparers in determining whether the IFRS 15 derived disclosure requirements are relevant to their organisations – with the proviso that it may not always be easy for the preparers of financial statements to judge what is material to the users of financial statements.

ED70 SMC 5

In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a

disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47.

Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions?

If not, why not?

17. In general, we support the inclusion of this additional disclosure requirement over and above the disclosure derived from IFRS 15 as this is a public sector specific situation that should provide useful information to the users of the financial statements.
18. However, we are aware of jurisdictions where the relevant public bodies only disclose the government policy that compels the delivery of services to those that may be unable to pay, rather than quantitative disclosures. This is often because quantitative information is not available as invoices are not raised when payment is not expected to be received.
19. Additionally, doubts have been raised whether it is appropriate for an organisation to disclose revenue forgone when government policy determines that some amounts will never be collectible. An alternative approach would be to disclose how such forgone revenue increases the cost for customers that settle their liability.
20. We believe that the standard should clearly state the criteria to determine whether forgone revenue (arising due to legal requirements or for any other reasons) should be disclosed, bearing in mind that this may be extremely difficult at the entity level.

ED 71 REVENUE WITHOUT PERFORMANCE OBLIGATIONS

ED71 SMC 1 (Paragraphs 14-21)

The ED proposes that a present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. The IPSASB decided that to help ascertain whether a transfer recipient has a present obligation, consideration is given to whether the transfer recipient has an obligation to perform a specified activity or incur eligible expenditure.

Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, Revenue without Performance Obligations, a specified activity and eligible expenditure give rise to present obligations?

Are there other examples of present obligations that would be useful to include in the [draft] Standard?

21. We believe that the general principle of matching revenue obtained from transfers to the related expenditure (contained in *IAS 20 Accounting for Government Grants*) is relevant for many public sector *transfers without a performance obligation* and should be the default treatment unless transfers are for unspecified purposes only. In this context, we agree that, for the purposes of this (draft) standard, a *specified activity* and *eligible expenditure* give rise to *present obligations* and should, in most cases, result in this default treatment.
22. However, we anticipate that in practice identifying the specified activity may prove to be difficult - especially when a single binding obligation may contain several activities, some of

which are implied. This may be a situation where more outreach is required to identify potential implementation issues and provide additional guidance where issues are identified.

23. We are also aware of practical situations where funds are provided for specified activities but where monitoring the specified activity is non-existent, resulting in the funds being used in full or in part for other purposes.
24. Again, this may be a situation where more outreach is required to identify how commonly this occurs. If common, it would be useful to provide a specific statement that where monitoring is non-existent, the rebuttable presumption is that no *present obligation* can exist.

ED71 SMC 2 (Paragraph 31)

The flowchart that follows paragraph 31 of this [draft] Standard illustrates the process a transfer recipient undertakes to determine whether revenue arises and, if so, the relevant paragraphs to apply for such revenue recognition.

Do you agree that the flowchart clearly illustrates the process?

If not, what clarification is necessary?

25. We believe that the flowchart clearly illustrates the process that a transfer recipient undertakes to determine whether revenue arises and how to recognise said revenue. We do not believe additional clarification is required.

ED71 SMC 3 (Paragraph 57-58)

The IPSASB decided that a transfer recipient recognizes revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation.

Do you agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time.

If not, what further guidance is necessary to enhance clarity of the principle?

26. We believe that the level of guidance in paras 57-58 is sufficient to establish the general principles in a principles-based standard.
27. However, we believe that preparers will face practical difficulties in determining whether income is to be recognised over time or at a point in time (the default treatment).
28. We note that ED 72 contains considerably more guidance on this matter, primarily in paras 36 – 39, but also in the Application Guidance in respect of certain specific issues. We would consider it beneficial if at least the same level of guidance on this topic was included in ED 71 as is included in ED 72.
29. We have identified another area of specific guidance that would be beneficial. It concerns situations where funds are made available to public sector entities for a specific project, but when the project is cancelled the funds are not recovered but are added to the entity's general funding.
30. In these circumstances a liability has been recognised for the *present obligation*, but this liability becomes redundant as circumstances change. In such circumstances, unless another

present obligation is imposed by the transfer provider, we believe that the correct treatment would be to treat the transfer as being without *present obligations* and immediately extinguish the liability, and thereby recognise revenue. We believe that it would be useful if the IPSASB could provide specific guidance covering such situations.

31. More generally, we find the structure of ED 70 is more logical than ED 71 when it comes to the revenue recognition section - perhaps because ED 70 is driven by the 5-step recognition model. We feel that the recognition section of ED 71 would benefit from a step-by-step layout to improve clarity, starting with recognition of an asset, recognition of liabilities and then recognition of revenue.
32. When dealing with recognition of revenue, the same logical flow as ED 70 (where appropriate) would improve clarity. In particular, we consider that most of the detailed paragraphs in the *Definitions* section dealing with *Present Obligations* (including *Specified Activity*, *Eligible Expenditure* and *Enforceability of Binding Arrangements*) would be more appropriately placed under *Transfers with Present Obligations – Present Obligation* with just the basic definition of these terms remaining in the *Definitions* section.
33. This would ensure that the detailed requirements and guidance are all in the same location and would result in the (draft) standard being more consistent with the (draft) standard *Revenue With Performance Obligations*. In common with our response to ED 70 SMC 1, we also believe that the section on *Enforceability* should include a specific paragraph summarising the key guidance in AG16 to AG23, making specific reference to the '*equivalent means*' such as sovereign powers and enforceability by means of withholding future funding.

ED71 SMC 4 (Paragraphs 80-81)

The IPSASB decided that the objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the arrangement so that it depicts the amount to which the transfer recipient expects to be entitled in satisfying the present obligation. The amount of revenue recognized is a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.

Do you agree sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations?

If not, what further guidance is necessary to enhance clarity of the principle?

34. As with SMC 3 above, we believe that the level of guidance in paras 80-81 is sufficient to establish the general principles in a principles-based standard.
35. However, again we believe that preparers will face practical difficulties in determining allocating the transaction price to each present obligation in the arrangement. We note that equivalent guidance in ED 70, derived from IFRS 15 and contained in paras 72 – 85 inclusive, is considerably more extensive.
36. In the private sector context, we have found the IFRS 15 guidance on this issue to be sufficient and we would encourage the IPSASB to consider whether a similar level of guidance should also be included in respect of allocating the transaction price to each present obligation.

ED71 SMC 5 (Paragraphs 84-85)

Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments?

If not, how do you propose receivables be accounted for?

37. We agree with the IPSASB that receivables within the scope of the standard should subsequently be measured in accordance with the requirements of IPSAS 41, *Financial Instruments*.

ED71 SMC 6 (Paragraphs 126-154)

The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.

Do you agree the disclosure requirements in this [draft] Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations?

In particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?

38. We agree with the disclosure requirements in respect of *Revenue Transactions Without Performance Obligations* and have not identified any disclosures that are not relevant, or any obvious omissions.

ED71 SMC 7 (Paragraph N/A)

Although much of the material in this [draft] Standard has been taken from IPSAS 23, Revenue from Non- Exchange Transactions (Taxes and Transfers), the IPSASB decided that the ED should establish broad principles for the recognition of revenue from transactions without performance obligations, and provide guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. The way in which these broad principles and guidance have been set out in the ED are consistent with that of [draft] IPSAS [X] (ED 72), Transfer Expenses.

Do you agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out?

If not, what improvements can be made?

39. We agree with the combined approach of issuing ED 70 - 72 at the same time due to the cross-cutting approach and issues. However, given the sheer volume of text involved, it can be quite difficult to develop a helicopter view of the consistency of structure, broad principles and internal logic between the three (draft) standards.
40. We have identified one important issue with the different relevance of *present obligations* between ED 71 and ED 72 and will deal with that in more detail in our response to the ED 72 SMCs below. Another issue of consistency, between ED 70 and ED 71 has been dealt with under ED 70 SMC 3 above.

41. Apart from the issues identified in the point above, our view is that the three (draft) standards do follow a consistent approach in both layout and the application of concepts and that they are set out logically.
42. There is, however, a great deal of information split between the three documents and, when read in a linear fashion, it is quite easy to get lost. Especially in the *Application Guidance*, the heading and sub-heading layout can break down and it can be difficult to relate the section being read to the overall heading under which it is nested.
43. This is especially the case with ED 71 and ED 72 where fundamentally different types of income \ expenditure are dealt with in the same document. For example, there are many pages between the sections on **recognition** in respect of *revenue without a performance obligation but with a present obligation* and *income with neither a performance obligation nor a present obligation*. This makes it more difficult to fully judge the difference between the two without constant jumping backwards and forwards within the documents. Consequently, with certain key sections, it may be beneficial to have a summary at the start of the document to provide an 'at a glance' overview in the (draft) standard itself.
44. It can also be difficult to carry forward concepts established in one (draft) standard to other standards where they also apply. This is important as most users of the (draft) standards will zoom in on the particular sections that appear to be of most relevant to their issues without necessarily being cognisant that another standard may provide additional context or guidance.
45. Consequently, we would recommend that the IPSASB further review the text to see if it can be shortened and simplified, ensure that all useful cross references between the different (draft) standards are in place and consider whether terms defined in one standard need to be restated in the others.

ED 72 TRANSFER EXPENSES

ED72 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?

46. We agree that the scope of this (draft) standard is clear and do not propose any changes to the scope or the definition of transfer expenses.

ED72 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?

47. In principle, we agree with distinguishing between transfer expenses with and without *performance obligations*, but we feel that is some confusion that arises due to similar and shared terminology within the three exposure drafts.
48. Underlying all three EDs is whether a *present obligation* exists in respect of a transfer payment – i.e. a binding obligation arising from past events to perform a service in the future. *Public sector performance obligations* as per ED 70 are a sub-set of these, with a specific present obligation to deliver goods or services to the purchaser or a third party.
49. ED 72 uses the same *Public sector performance obligations* but from the transfer payer's point of view. However, it is only scoped to include supplies of goods and services to third parties on behalf of the purchaser and not to the purchaser itself.
50. We see the logic of excluding the purchaser of goods or services from the scope ED 72's *performance obligations* requirement but feel the using the same term '*Public Sector Performance Obligation Approach*' (PSPOA) in respect of transfer expenses, where the scope is not identical, could be confusing.
51. We agree with the application of the 5 step approach of the PSPOA to transfer expenses – in fact, we feel that there may be good reasons to broaden its principles to other transfer expenses *with present obligations* – i.e. to further mirror the treatment for revenue in ED 70 and ED 71. We will deal with this point in more detail under ED 72 SMC 6, below.

ED72 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?

52. Subject to our concerns expressed under SMC 2, we agree that if the transfer provider does not, or cannot, monitor the transfer recipient's *performance obligations* throughout the duration of the binding arrangement, the transactions should be accounted for as a *transfer expense without performance obligations*.
53. Compared to the provisions covering *revenue with performance obligations* in ED 70, paras 45 and 46 are important additions to the guidance in respect to *performance obligations* and transfer expenses. However, we believe that the issue of '*reasonable measures of progress*' would benefit from additional guidance.
54. For example, in Para 45 it is stated that '*if the transfer provider cannot reasonably measure the transfer recipient's progress towards complete satisfaction of the performance obligation, the transfer provider shall recognize an expense for a transfer recipient's performance obligation recognized at a point in time, or a transfer expense without performance obligations, whichever more faithfully represents the transfer provider's obligations to transfer resources to the transfer recipient*'. This is a significant judgement to make - which could result in major differences in the recognition of the expense - so additional

guidance on the factors that should be considered when making the decision would be beneficial.

55. Para 46 acknowledges that it may be difficult to reliably measure the progress that the transfer recipient is making in satisfying the performance obligation, especially at the early stages of the *binding arrangement*. An expense would only then be recognised when it is possible to reasonably measure the outcome of the recipient's *performance obligation*.
56. This creates a tension with the part (d) of Para 13, which firmly states that the PSPOA can only be applied if the transfer provider can monitor the satisfaction of the *performance obligations* throughout the duration of the *binding arrangement*. It would be beneficial to provide additional guidance on such matters as:
- a. How you assess the likelihood of being able to monitor the satisfaction of the *performance obligation* at the commencement of the *binding arrangement*?
 - b. How long an interval where monitoring is not possible is acceptable at the start of the *binding arrangement* before the use of the PSPOA becomes untenable?
 - c. How to deal with temporary restrictions on being able to monitor the satisfaction of the *performance obligation* before it is necessary to review the use of the PSPOA and potentially treat the transfer as a *transfer expense without performance obligations*.

ED72 SMC 4

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

- (a) *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*
- (b) *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?

57. We agree with the recognition and measurement requirements for *transfer expenses with performance obligations* as stated in the (draft) standard and believe that this is an approach that works well with the consolidation of public sector entities.

ED72 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.

58. Our experience with IFRS 15 is that the guidance in the standard has been sufficient to deal with the issues arising from applying the recognition and measurement requirements for *revenue with performance obligations*. Consequently, as the guidance in ED 72 has been derived from IFRS, we consider that the guidance will also be sufficient in the majority of situations in the public sector.
59. One issue raised was in respect of public sector bodies avoiding applying *performance obligations* by incorrectly claiming that they are merely acting as agents for other governmental bodies. This is an issue that affects more areas than just the point in question here, and we wonder whether it would be beneficial for the IPSASB to provide some guidance on the criteria necessary for entities to claim that they are acting only as agents – thereby not applying the PSPOA.

ED72 SMC 6

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

- (a) *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?

60. As mentioned in SMC 2 above, we believe that there is a fundamental issue to address in respect of recognition of transfers that don't meet the criteria to apply the PSPOA but where - due to the *binding arrangement* - the transfer provider could still control the asset until the transfer recipient fulfils the *present obligations*.
61. In such circumstances, we believe that a *present obligation* exists on the transfer recipient to apply the resources in the manner directed in the *binding arrangement* – including that the resources be applied at a point of time, or over time, in several accounting periods. The transfer provider would monitor the performance of the *present obligation* and act if the transfer recipient fails to deliver on the terms of the *binding arrangement*.
62. This situation was highlighted by Rosa Aldea Busquets, Accounting Officer to the European Commission in her [presentation](#) in the December 2019 IPSASB CAG meeting. She highlighted transactions that wouldn't meet the PSPOA criteria but where the European Commission still has power to enforce performance obligations by maintaining control over the funds.
63. In these situations, where the recipient's '*performance obligations*' could run over several years, we do not believe that immediately recognising the entirety of the transfer expense will always faithfully represent the transaction – and could result in a different treatment than if the transfer was structured a series of annual transfers.

64. Where such control can be demonstrated, and is enforceable (perhaps by the contractual right for the return of funds not utilised as per the *binding arrangement*), we believe that a similar approach to the PSPOA could provide a more faithful representation of the arrangement from the transferor's perspective - rather than recognising transfer expenses at the earlier of a *present obligation* arising or when control of the resources is lost.
65. In such circumstances, it would be appropriate to record a *binding arrangement* liability when the present obligation is established – as proposed – but to then recognise the expense as and when the transfer recipient fulfils their obligation under the *binding arrangement*. It would also be appropriate to recognise a *binding arrangement* asset for any assets transferred in advance of the transfer recipient fulfilling the obligations or incurring eligible expenditure.
66. In such circumstances, if the transfer provider suffered a genuine loss of control of the asset(s) in question, the expense would be immediately realised.
67. Consequently, we ask that the IPSASB should consider how the PSPOA approach could be applied to *present obligations* and whether the treatment proposed in the (draft) standard for are appropriate for all *transfer expenses without performance obligations* where the recipient's *present obligations* run for more than one accounting period.
68. We agree with the proposal in the (draft) standard to measure *transfer expenses without performance obligations* at the carrying amount of the resources given up.

ED72 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?

69. The issue raised in SMC 2 and 6 have a big impact on the proposal that asymmetrical recognition of revenue and expenses could occur for *transfers without a performance obligation*.
70. We understand that the asymmetrical treatment would be more prudent for the transfer provider. However, where the transfer provider still has substantial control over the application of the transferred resources - and may be able to withhold or recover resources not applied in accordance with the binding obligation - we believe a symmetric recognition would provide a more faithful representation of the timing of the costs from the perspective of the transfer provider.
71. Indeed, we consider that symmetry of recognition should be default presumption, with the ability to rebut the presumption to deal with, for examples, issues of prudence.

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?

72. We understand that there is considerable global divergence in the role that formal appropriation processes play in determining whether a *binding arrangement* exists. Broadly, we agree with the proposal that the transfer provider should consider substance over form when deciding whether a *present obligation* to transfer exists prior to the appropriation being authorised.
73. However, we wonder whether the (draft) standard would benefit from a change in emphasis. We believe that the if a *binding arrangement* exists then, by the very nature of it being binding, the liability should be recognised.
74. If there is an established practice of refusing appropriation, we would consider that the arrangement could not be binding until the appropriation is approved. However, if it is normal for appropriations to be approved, the obligation should be treated as binding and a liability should be recognised at the inception of the arrangement. Any subsequent refusal of all, or part, of the appropriation would then be accounted for when the refusal occurs.
75. We believe that linking recognition of a liability too directly to a successful appropriation offers too much opportunity for abuse.
76. In many jurisdictions there will be an established custom of appropriations that indicate whether approval of the appropriation is likely. However, we wonder whether the current coronavirus crisis indicate the need for more guidance on judging whether an appropriation is likely to be approved.
77. We are aware that the coronavirus crisis, and other crises such as the Wellington earthquake, led to a widespread diversion of resources away from established programmes into emergency support programmes. This introduces an element of uncertainty into the appropriation process even where this did not previously exist. We ask the IPSASB to consider whether additional guidance is appropriate in the criteria that preparers should use in applying substance over form when deciding if uncertainties about appropriation are sufficiently pervasive to not recognise the liability when the arrangement is agreed.

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,

- a) Do you think there are any additional disclosure requirements that should be included?*
- b) Are any of the proposed disclosure requirements unnecessary?*

78. We appreciate that how public sector bodies spend taxpayers' money is a crucial matter for many stakeholders.

79. However, we are uncertain that all of the disclosures are necessarily vital to the majority of stakeholders and we believe that it is important to strike a balance and not bury important information under non-essential disclosures. This is of particular concern when many of the transactions will relate to transactions with other public bodies that would fall away on consolidation but that would still be required to be disclosed in individual financial statements.

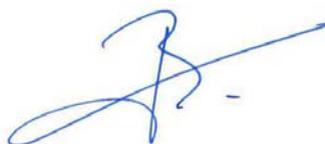
80. Our respondents have, in particular, expressed concerns about the necessity of disclosures relating to the disclosure of significant judgements and the reconciliation of opening and closing balances. Concerns have also been raised about having to re-classify arrangement extant at the implementation date of the standard as, for example, *transfers with and without performance obligations*. Further outreach to preparers may be required to determine if additional guidance is required in respect of these issues.

81. We cannot identify any class of disclosures that are obviously superfluous, but we find it difficult to gauge the full disclosures that public sector bodies would be required to produce in respect of transfer expenses. To that end, we would find it useful if the IPSASB could provide some model disclosures for different types of public sector entity, which would better allow us to assess the practical impact of the requirements on preparers.

Sincerely,



Florin Toma
President



Olivier Boutellis-Taft
Chief Executive

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