

CONSULTATION PAPER (CP)
ACCOUNTING FOR REVENUE AND NON-EXCHANGE EXPENSES

The Technical Director

International Public Sector Accounting Standards Board (IPSASB)

International Federation of Accountants

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Brasília, Brazil
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Dear Mr. John Stanford,

The Conselho Federal de Contabilidade (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on *Accounting for Revenue and Non-exchange Expenses*. CFC, along with its regional arms - Regional Accounting Councils or Conselhos Regionais da Contabilidade (CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Advisory Board for Public Sector Accounting Standards (GA/NBC TSP) of the CFC.

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.



Regards,

Idésio S. Coelho
Technical Vice-President
Conselho Federal de Contabilidade

APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, one federal district and more than 5,500 city governments. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements. The discussion about revenue recognition is important for understanding how the autonomous levels of governments interact in the conduction of public policies across the country.

The state and local governments usually are responsible for implementing public policies, but the resources derived from tax-raising competences are not sufficient to fund the entire activities and/or projects which are expected to produce the necessary services/products for the public policies implementation.

Therefore, the intergovernmental grants are essential to bridge the gap in the state and local governments between tax-raising competences and expenditure responsibilities. In our jurisdiction, the grants are divided into two major categories: compulsory and voluntary. The compulsory grants have not performance obligations or stipulations. In the other hand, the voluntary grants are based on contractual arrangements with stipulations.

In this document, we present the contributions for the consultation paper based on a practical approach applicable to our jurisdiction. In general, we believe that the IPSASB propositions are appropriated; however, the definition of conditions and performance obligations needs to be further more explained in the approaches proposed by IPSASB.

In the next section, we present our comments and answers on the preliminary views and specific matters for comment of the consultation paper on an international level.

2. Responses to the Specific Matters for Comment and Preliminary Views

Preliminary View 1 (following paragraph 3.8)

The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that: Involve the delivery of promised goods or services to customers as defined in IFRS 15; and Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

IPSASB aims to make IPSAS more direct and objective, replacing IPSAS 9 and 11 by a new one based on IFRS 15 for category C transactions.

GA/CFC agrees with PV1.

Preliminary View 2 (following paragraph 3.9)

Because Category A revenue transactions do not contain any performance obligations or stipulations, the IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.

Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Besides taxes, some transfers fall into category A revenue transactions (no performance obligations or stipulations). It is important to adjust IPSAS 23 in order to provide guidance to differentiate transfers that fall into category A from those that fall into category B. In our jurisdiction, mandatory transfers are in the context of category A transactions. On the other hand, voluntary transfers are mostly conditioned to the execution of a specific task, therefore falling into category B.

GA/CFC agrees with PV2.

Specific Matter for Comment 1 (following paragraph 3.10)

Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

Social contributions; and/or

Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

In fact, it is possible that in some jurisdictions certain transfers (or even contributions) may be deferred for a longer period than the financial year, in which case some guidance regarding revenue recognition may become necessary. However, we have not identified any issues within our jurisdiction. One important issue to address while updating IPSAS 23 is to provide more guidance in accounting for expenses paid through the tax system and tax expenditures.

Preliminary View 3 (following paragraph 4.64)

The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.

Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

GA/CFC agrees with PV3. However, IPSASB should provide more guidance in cases in which there are not three parties involved, but that can fall within PSPOA, e.g., taxes collected that are tied to a specific use, such as public lighting.

Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:

- Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);
- Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);
- Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);
- Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and
- Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).

Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons.

GA/CFC agrees with SMC2, broadening the requirements in the IFRS 15 five-step approach. Just as presented, part of the terminology used in IFRS 15, for example, must be adjusted to the public sector needs. Some arrangements that fall within PSPOA, for example, are not formalized in “contracts”, but in binding arrangements. “Transaction price” is also not a common term in part of public sector transactions. In these two cases, we also agree with the terms “binding arrangement” and “consideration”.

Specific Matter for Comment 3 (following paragraph 4.64)

If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

- Option (b) – Require enhanced display/disclosure;
- Option (c) – Classify time requirements as a condition;
- Option (d) – Classify transfers with time requirements as other obligations; or
- Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

The suggested approaches (approaches 1 & 2) for updating IPSAS 23 with respect to category B transactions can be seen in chapter 4 and are as follows:

Approach #1: exchange/non-exchange;

Approach #2: PSPOA approach broadening the original requirements of IFRS 15 to meet public sector needs.

From what we understood from the Consultation Paper, approach #2 seems more appropriate for public sector needs. However, if IPSASB chooses to implement Approach #1 to handle transactions with time requirements, it is reasonable to improve these transactions' disclosure, as well as to recognize them as other obligations (options (b), (c) and (d) combined) until time requirements are met. It is understood that, precisely because of time requirements, in the moment of cash inflows such transactions do not meet the requirements for revenue recognition. In this way, revenue recognition would occur over time (c), concomitantly with a liability reduction (d). Thus, being relevant to the entity and having the potential to influence the users of the accounting information, it is important to increase the disclosure of such transactions (b). It is also understood that option (d), “other obligations”, meets the Conceptual Framework guidelines.

Specific Matter for Comment 4 (following paragraph 4.64)

Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

(a) Yes

(b) No

Please explain your reasons.

As stated by the IPSASB itself, distinction between exchange/non-exchange revenue transactions will always be bound to some degree of subjective perspective, requiring professional judgment. In this sense, it may be risky to provide additional guidance to practitioners, which could make the standard more confusing to be applied. Furthermore, is it relevant to separate revenue transactions as exchange/non-exchange? It may be more interesting to separate them between “usual/non-usual” public sector revenue, or something similar.

In any case, keeping the exchange/non-exchange approach, it may be important to provide additional guidance as regards to time requirements, but only if it is easy to be applied.

GA/CFC: (b) Yes.

Preliminary View 4 (following paragraph 5.5)

The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS. Do you agree with the IPSASB’s Preliminary View 4? If not please give your reasons.

The definition of capital transfers presented in the Consultation Paper is very close to that used in our jurisdiction. Thus, capital transfers would not characterize revenue until they were effectively applied, that is until a condition is met.

GA/CFC agrees with PV4.

Specific Matter for Comment 5 (following paragraph 5.5)

(a) Has the IPSASB identified the main issues with capital grants?

If you think that there are other issues with capital grants, please identify them.

(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?

Please explain your issues and proposals.

One issue that deserves to be better discussed, and which is not limited to capital transfers, but to any transactions with performance obligations, concerns the issue of accountability between grantor and receiver. From what was discussed in this CP, the understanding goes to the recognition of the revenue concomitantly with the fulfillment of the performance obligation. However, until recently in our jurisdiction, the grantor would hold an asset until receiving an invoice from the receiver. Thus, the grantor’s asset would mirror the receiver’s liability, and this asset would only be derecognized if the invoice was considered satisfactory or the resource was returned. With the PSPOA, this understanding would be no longer valid. Thus, additional guidance as regards as the relations between grantor and receiver, particularly on accountability issues, would be necessary.

Specific Matter for Comment 6 (following paragraph 5.9)

Do you consider that the IPSASB should:

(a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or

(b) Modify requirements to require services in-kind that meet the definition of an asset to be recognised in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or

(c) An alternative approach.

Please explain your reasons. If you favor an alternative approach please identify that approach and explain it.

Services in-kind, or services provided by individuals to the public sector without anything in exchange, are not relevant in our jurisdiction. Therefore, we understand that the recognition of these services should not be mandatory. On the other hand, we are aware that these services may be relevant in other jurisdictions. Therefore, we understand that option (a) would be more appropriate.
GA/CFC: option (a).

Preliminary View 5 (following paragraph 6.37)

The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.

Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

By analysing the material, non-exchange expenses, except for those covered by the Social Benefits IPSAS draft, include: (a) collective services; (b) universally accessible services; and (c) grants, contributions and other transfers. Our jurisdiction is full of examples, e.g., public education (b), and financial transfers to people below the poverty line (c). In these cases, expenditures by the public sector would not generate benefits to the public sector itself (governments), but only to society as a whole. Thus, we agree with IPSASB's PV5.

Preliminary View 6 (following paragraph 6.39)

The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.

Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

GA/CFC agrees with PV6.

Preliminary View 7 (following paragraph 6.42)

The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.

Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons

In our jurisdiction, transfers may or may not be bound to an obligation (mandatory transfers are usually bound to an obligation, whilst discretionary transfers are not). Thus, when this obligation exists, a liability must be recognized and settled concomitantly with the fulfillment of the obligation. Public sector performance obligation seems to be an adequate approach to address issues like this.

GA/CFC agrees with PV7.

Preliminary view 8 (following paragraph 7.18)

The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment. Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

According to paragraphs 7.3-7.5, non-contractual receivables usually comprise statutory / legal receivables, such as: (a) taxes; (b) government transfers; (c) fines and penalties; (d) fees; and (e) licenses, and arise from legislation or similar instruments. IPSASB understands that the asset should initially be recognized at face value (legislated), and any amount not receivable should be identified as impairment. It seems to us that the practices in progress in our jurisdiction are aligned with this understanding.

GA/CFC agrees with PV8.

Preliminary View 9 (following paragraph 7.34)

The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.

Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

The main issue here concerns the Conceptual Framework, that does not present fair value as a measurement basis. Despite this issue, GA/CFC agrees with IPSASB's PV9.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

- (a) Cost of Fulfilment Approach;
- (b) Amortized Cost Approach;
- (c) Hybrid Approach; or
- (d) IPSAS 19 requirements?

Please explain your reasons.

In our jurisdiction, we usually apply the measurement basis that best reflects the liability during the reporting period. Therefore, the measurement basis that best fits to the non-contractual payable depends on the obligation itself – each tax with obligations with third parties, for example, is analysed in separate and may use a different measurement basis than another. Thus, GA/CFC support any of the four subsequent measurement basis presented, as long as it best reflects the financial position.