



ACT
Government

Chief Minister, Treasury and
Economic Development

Mr John Stanford
The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017
United States of America

Dear Mr Stanford

Consultation Paper: Accounting for Revenue and Non-Exchange Expenses

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on IPSASB Consultation Paper (CP) – *Accounting for Revenue and Non-Exchange Expenses*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC broadly agrees with the scope of this CP and supports updating guidance on non-exchange transactions in light of IFRS 15 *Revenue from Contracts with Customers*. HoTARAC agrees with the IPSASB's proposed categorisation of these transactions and strongly suggests the IPSASB consider Australia's standard on Income for Not-for-Profit Entities and the application of the principles of IFRS 15 *Revenue from Contracts and Customers* and IFRS 9 *Financial Instructions* to non-exchange transactions in their deliberations.

The attachment to this letter sets out HoTARAC's response to the specific matters for comment and preliminary views. If you have any queries regarding our comments, please contact Peter Gibson from the Commonwealth Department of Finance on +61 2 6215 3551 or by email to peter.gibson@finance.gov.au.

Yours sincerely

David Nicol
Chair

Heads of Treasuries Accounting and Reporting Advisory Committee
/2 January 2018

General Comments

HoTARAC notes that the IPSASB has built upon work undertaken by the South African standard setter in 2012.

The Australian domestic standard setter has recently issued a new standard for non-exchange revenues, applicable from 1 January 2019, which incorporates many of the issues raised in this consultation paper, including the application of IFRS 15 *Revenue from Contracts and Customers* and IFRS 9 *Financial Instruments* to non-exchange transactions and the measurement of balance sheet items resulting from these transactions¹. HoTARAC recommends the IPSASB consider this in their review of IPSAS 23 *Revenue from Non-Exchange Transactions*.

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:

- (a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
- (b) 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

HoTARAC agrees.

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.

HoTARAC agrees.

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:

- (a) Social contributions; and/or
- (b) Taxes with long collection periods.

HoTARAC jurisdictions currently apply a domestic Australian standard to non-exchange revenues that has similar revenue recognition points to IPSAS 23. HoTARAC's experience is that non-exchange revenue is generally recognised at the point the cash is received and this may not match the timing of the expenditures the revenue funds.

- (a) HoTARAC jurisdictions do not have many social benefits funded through social contributions.

¹ AASB 1058 *Income of Not for profit entities* (AASB 1058)

<http://www.aasb.gov.au/Pronouncements/Current-standards.aspx>. Guidance on the application of IFRS 15 and IFRS 9 to non-exchange transactions: http://www.aasb.gov.au/admin/file/content105/c9/AASB2016-8_12-16.pdf

- (b) HoTARAC has found that it can be very difficult to reliably estimate tax revenues on an accrual basis where tax collections occur over a number of periods. The current and new income standards for not-for-profit entities allow the expedient of recognising taxes on a quasi-cash basis (when the cash is received or an assessment issued) where a reliable accrual measurement is not possible.

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.

HoTARAC agrees with using the five-step approach to performance obligation. HoTARAC strongly suggests the IPSASB consider Australia's application of the principles of IFRS 15 to the public sector.

HoTARAC suggests that the IPSASB carefully consider the extent to which remedies other than a refund obligation represent enforceable performance obligations (paragraph 4.32). As governments typically have ongoing funding arrangements and the ability to enact legislation, the effect of this paragraph may be that government is always able to enforce a performance obligation. For example, a government may give ongoing funding to charitable organisations. This should not give rise to an enforceable performance obligation simply because the government may not continue funding in the future.

HoTARAC suggests the IPSASB more fully explore third party beneficiaries (paragraph 4.26(b)).

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.

HoTARAC agrees.

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 favour for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

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

HoTARAC would favour Option (b). HoTARAC does not believe that time requirements would, in isolation, be sufficient to create enforceable performance obligations. HoTARAC recommends revenues be allocated on the basis of established IPSAS accounting principles and caution be exercised in attempting to match revenue and expenses.

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.

HoTARAC favours Option (b) in SMC 3, so additional guidance on exchange/non-exchange transactions would not be necessary. However, if the IPSASB were to proceed on recognising exchange and non-exchange transaction on a different bases, additional guidance to distinguish between the two would be useful.

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.

HoTARAC agrees. HoTARAC recommends considering the Australian guidance of paragraph 15 of AASB 1058 *Income of Not-for-Profit Entities*. HoTARAC recommends guidance be based on sound accounting principles.

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.

(a) HoTARAC considers the IPSASB has identified the main issues.

(b) As per the response above, a performance obligation approach should be taken.

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 favour an alternative approach please identify that approach and explain it.

HoTARAC favours approach (b). HoTARAC's view is that where the definition of an asset is met, this should be recognised in the financial statements provided reliable measurement criteria are met and the item is material. HoTARAC favours using the criteria of paragraph 5.9(a), that the asset is recognised where the services are purchased if they had not been donated.

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.

HoTARAC agrees.

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.

HoTARAC agrees.

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

HoTARAC agrees, but notes grantors may have difficulties in determining the extent to which a grantee has satisfied a performance obligation unless this information is periodically reported.

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.

HoTARAC does not agree. HoTARAC suggests the IPSASB consider treating contractual and non-contractual receivables the same way. Current IFRS 9 (being considered for adoption by the IPSASB under ED 62 *Financial Instruments*) requires trade receivables to be measured at transaction price less an allowance for impairment and other receivables to be measured at fair value.

HoTARAC notes the difficulties in estimation raised in paragraph 7.14, but believes this simply reflects the uncertainty in any estimation of future cash flows. As with other estimates, the preparers must judge whether the estimate is sufficiently reliable to include in the financial statements.

In respect to 7.15, surely the discount rate is the government's borrowing rate?

HoTARAC does not accept the argument of paragraph 7.18 that measuring at face value promotes accountability. The role of the primary financial statements is to present a true and fair view of the financial position of the entity. If the IPSASB believes that information on uncollectible amounts is important as an accountability mechanism, this can be disclosed in the notes.

HoTARAC does not follow the argument that receivables arising from sovereign power differ from other legal obligations. HoTARAC suggests that the IPSASB provide a clearer explanation.

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.

HoTARAC suggests non-contractual receivables be subject to the same measurement requirements as contractual receivables. HoTARAC does not understand the logic in using face value for initial recognition and fair value subsequently.

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.

Consistent with previous responses, HoTARAC suggests measuring non-contractual payables (as distinct from provisions) in the same way as other financial liabilities using a financial instruments approach.

HoTARAC is of view that if different models are used for contractual balance sheet items (fair value and amortised cost), non-contractual liabilities of similar complexity may also require different measurement models.

