



ICGFM The International Consortium on Governmental Financial Management

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The Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West, 6th Floor  
Toronto, Ontario M5V 3H2  
CANADA

Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultation Paper "Accounting for Revenue and Non-Exchange Expenses" issued August 2017.
2. We are supportive of the approach in the Consultation Paper. We attach our response setting out our comments and preferred options.
3. We appreciate the opportunity to comment on this Consultation Paper and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at [Michael.parry@michaelparry.com](mailto:Michael.parry@michaelparry.com) or on +44 7525 763381.

Yours faithfully,

**Michael Parry**

ICGFM Accounting Standards Committee

Michael Parry, Chair

Andrew Wynne

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Cc: Jim Wright, President, ICGFM

# International Consortium on Government Financial Management (ICGFM)

## Response to Consultation Paper on Accounting for Revenue and Non- Exchange Transactions

August 2017

Preliminary View	Comments
<p><b>Preliminary View 1 (following paragraph 3.8)</b></p> <p>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.</p> <p>Such an IPSAS will address Category C transactions that:</p> <p>(a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and</p> <p>(b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.</p> <p>Do you agree with the IPSASB’s Preliminary View 1? If not, please give your reasons (p. 28)</p>	<p>Agree</p> <p><i>Comments.</i></p> <p>Combining the two IPSAS is logical.</p> <p>IFRS 15 contains a number of guidelines (including legal) for accounting for exchange transactions. For example, the standard provides provisions on identifying the contract, combination of contracts, contract modification, identifying performance obligations, distinct goods and services, etc.</p> <p>The application of this approach will avoid the issue of classification of exchange revenue and expenses transactions of the kind that, for example, Ukraine encountered while implementing IPSAS 9, 11 and 23.</p>
<p><b>Preliminary View 2 (following paragraph 3.9)</b></p> <p>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.</p> <p>Do you agree with the IPSASB’s Preliminary View 2? If not, please give your reasons. (p. 28)</p>	<p>Agree</p> <p><i>Comments.</i></p> <p>In Ukraine, the problem of classification of revenues receipt and implementation of expenses for transfers to citizen was apparent.</p>

<b>Preliminary View</b>	<b>Comments</b>
<p><b>Specific Matter for Comment 1 (following paragraph 3.10)</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• Social contributions; and/or</li> <li>• Taxes with long collection periods.</li> </ul> <p>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. (p. 28)</p>	<p>In Ukraine, the entity that should account for non-exchange transactions was not clear – the administering entity or the Treasury?</p> <p>In Barbados, the lack of any guidance on the treatment of capital grants (i.e. grants for the creation of capital assets) was an issue</p>
<p><b>Preliminary View 3 (following paragraph 4.64)</b></p> <p>The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.</p> <p>Do you agree with the IPSASB’s Preliminary View 3? If not, please give your reasons. (p. 44)</p>	<p>Agreed</p> <p><i>Comments.</i></p> <p>The IMF GFS 2014 Para 5.10 states “<i>transactions are recorded when the underlying activities, transactions, or other events occur that create the unconditional claims to receive the taxes or other types of revenue</i>”. This is consistent with the obligating event approach</p>

<b>Preliminary View</b>	<b>Comments</b>
<p>Specific Matter for Comment 2 (following paragraph 4.64)</p> <p>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:</p> <p>Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);</p> <p>Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);</p> <p>Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);</p> <p>Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and</p> <p>Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).</p> <p>Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened? If not, please explain your reasons (p. 44)</p>	<p>We consider the IFRS 15 approach equally valid for governments, though explanation and examples of its application would be very useful</p>
<p><b>Specific Matter for Comment 3 (following paragraph 4.64)</b></p> <p>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):</p> <ul style="list-style-type: none"> <li>a. Option (b) – Require enhanced display/disclosure;</li> <li>b. Option (c) – Classify time requirements as a condition;</li> <li>c. Option (d) – Classify transfers with time requirements as other obligations; or</li> <li>d. Option (e) – Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.</li> </ul> <p>Please explain your reasons. (p. 44)</p>	<p>Option (e)</p> <p>This is the only approach which is consistent with accrual principles</p>

<b>Preliminary View</b>	<b>Comments</b>
<p><b>Specific Matter for Comment 4 (following paragraph 4.64)</b></p> <p>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?</p> <ul style="list-style-type: none"> <li>• Yes</li> <li>• No</li> </ul> <p>Please explain your reasons. (p. 44)</p>	<p>Yes</p> <p>Additional information would be needed to understand the transaction</p>
<p><b>Preliminary View 4 (following paragraph 5.5)</b></p> <p>The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.</p> <p>Do you agree with the IPSASB’s Preliminary View 4? If not please give your reasons. (p. 45)</p>	<p>Agreed</p> <p><i>Comments.</i></p> <p>At present, there is no guidance on capital grants, this is an issue</p>
<p><b>Specific Matter for Comment 5 (following paragraph 5.5)</b></p> <p>(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.</p> <p>(b) Do you have any proposals for accounting for capital grants that the IPSASB should consider? Please explain your issues and proposals. (p. 46)</p>	<p><i>Main issues are identified</i></p> <p><i>Comments.</i></p> <p>Main issues encountered have been:</p> <ul style="list-style-type: none"> <li>• Timing of recognition</li> <li>• Treatment of revenue from capital grants</li> </ul>

<b>Preliminary View</b>	<b>Comments</b>
<p><b>Specific Matter for Comment 6 (following paragraph 5.9)</b></p> <p>Do you consider that the IPSASB should:</p> <p>(a) Retain the existing requirements for services in-kind, which permit, but do not require recognition of services in-kind; or</p> <p>(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</p> <p>(c) An alternative approach.</p> <p>Please explain your reasons. If you favour an alternative approach please identify that approach and explain it. (p. 47)</p>	<p>We favour an alternative approach (c): services in kind should be recognised if the conditions in (b) apply and in addition “if obtaining the information is cost effective”</p> <p>To calculate the fiscal indicators used for analysis, these services should be excluded from revenues and expenditures. In particular, for the calculation of state final consumption as the element of GDP in the UN System of National Accounts, it is necessary to know whether, and to what extent, such flows are accounted for in the composition of income and expenditure. This is needed for diagnosing the General Government sector impact on economy.</p>
<p><b>Preliminary View 5 (following paragraph 6.37)</b></p> <p>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.</p> <p>These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.</p> <p>Do you agree with the IPSASB’s Preliminary View 5? If not, please give your reasons. (p. 56)</p>	<p>Agreed</p>
<p><b>Preliminary View 6 (following paragraph 6.39)</b></p> <p>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.</p> <p>Do you agree with the IPSASB’s Preliminary View 6? If not, please give your reasons. (p. 56)</p>	<p>Agreed</p> <p>Such transactions are reflected in SNA in the same way (provision of collective services by General Government Sector). The obligations stay the same.</p>

<b>Preliminary View</b>	<b>Comments</b>
<p><b>Preliminary View 7 (following paragraph 6.42)</b></p> <p>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 Public Sector Performance Obligation Approach (PSPOA) which is the counterpart to the IPSASB’s preferred approach for revenue.</p> <p>Do you agree with the IPSASB’s Preliminary View 7? If not, please give your reasons (p. 57)</p>	<p>Agreed</p>
<p><b>Preliminary view 8 (following paragraph 7.18)</b></p> <p>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.</p> <p>Do you agree with the IPSASB’s Preliminary View 8? If not, please give your reasons (p. 61)</p>	<p>Agreed</p>
<p><b>Preliminary View 9 (following paragraph 7.34)</b></p> <p>The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.</p> <p>Do you agree with the IPSASB’s Preliminary View 9? If not, please give your reasons. (p. 63)</p>	<p>Agreed</p>
<p><b>Specific Matter for Comment 7 (following paragraph 7.46)</b></p> <p>For subsequent measurement of non-contractual payables do you support:</p> <p>(a) Cost of Fulfilment Approach;</p> <p>(b) Amortized Cost Approach;</p> <p>(c) Hybrid Approach; or</p> <p>(d) IPSAS 19 requirements?</p> <p>Please explain your reasons. (p. 65)</p>	<p>We support option (a),</p> <p>This is the simplest and most logical approach. It allows the identification of the amount in accordance with the approaches defined by IPSAS 19 “Provisions, contingent liabilities and contingent assets”.</p>