International Public Sector Accounting Standards Board®

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Meeting:	IPSASB Consultative Advisory Group	**Agenda Item 3**	For:
Meeting Location:	Virtual Meeting		☐ Approval
Meeting Date:	December 7, 2020		☒ Discussion
			☐ Information

REVENUE AND TRANSFER EXPENSES

Project summary	The aim of the revenue project is to develop one or more standards that provide recognition and measurement requirements for revenue transactions. The aim of the transfer expenses project is to develop a standard that provides recognition and measurement requirements applicable to providers of transfer expense transactions, except for social benefits.	
Meeting objectives	***Topic***	***Agenda Item***
Discussion Items	Responses to ED 70, *Revenue with Performance Obligations*, ED 71, *Revenue without Performance Obligations*, and ED 72, *Transfer Expenses*	3.1
Other supporting items	Appendix A: Flowchart to Illustrate Revenue Analysis	3.2
	Appendix B: IPSASB Due Process Checklist (condensed to included portions relevant to the CAG)	3.3
	Appendix C: Links to Other Documents	3.4

Prepared by: Edwin Ng, Eileen Zhou (November 2020)

Responses to ED 70, *Revenue with Performance Obligations*, ED 71, *Revenue without Performance Obligations*, and ED 72, *Transfer Expenses*

Background

1. In February 2020, the IPSASB issued Exposure Draft (ED) 70, *Revenue with Performance Obligations*, ED 71, *Revenue without Performance Obligations*, and ED 72, *Transfer Expenses*.

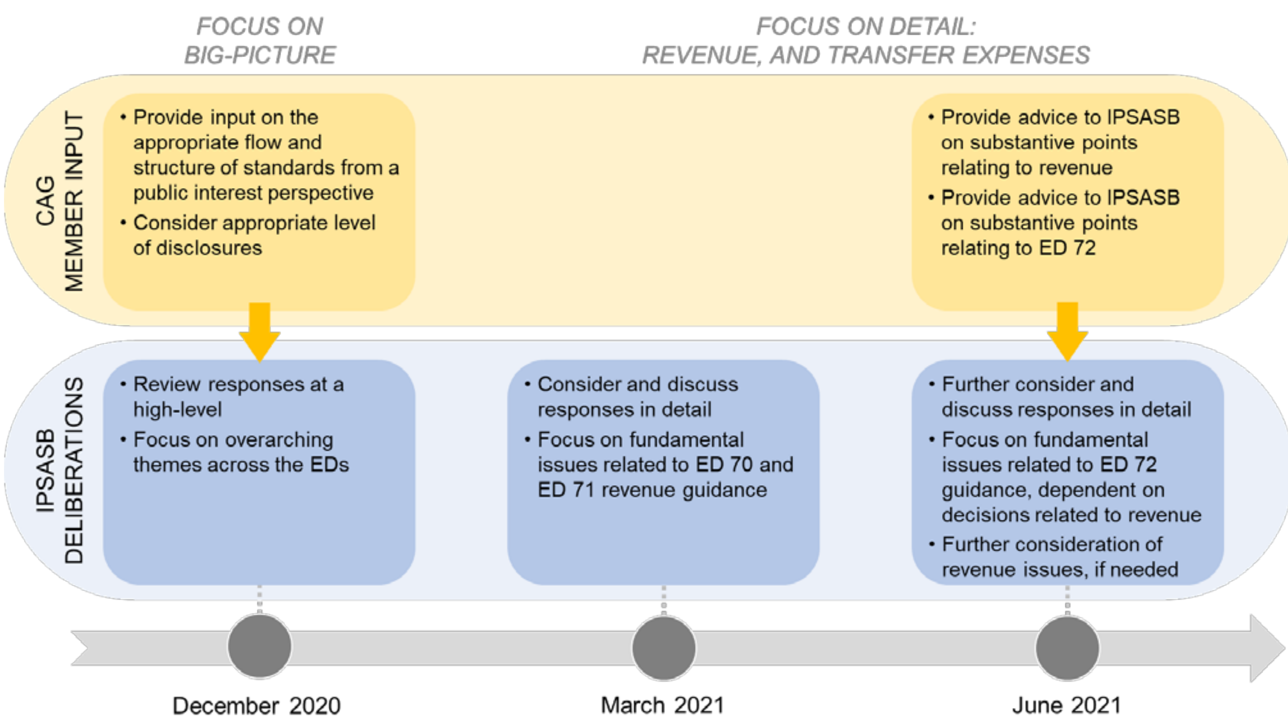
2. The aim of ED 70 and ED 71 is to develop new standards on the recognition and measurement of revenue. A public sector entity can earn revenue from the provision of goods or services for consideration or the receipt of resources in transactions such as taxes, capital transfers, and other transfers, including grants, fines, bequests, and gifts.

3. The aim of ED 72 is to develop a standard that provides recognition and measurement requirements for an entity that transfers a good, service, or other asset to another entity without directly receiving any good, service or other asset in return. This could be the case when, for example:

   (a) A federal government transfers CU100 million to one of the state governments; or

   (b) An international organization purchases vaccinations from an unrelated Entity B to be delivered to Government X.

4. The following high-level project timeline is based on preliminary review of responses to the suite of EDs. The CAG is asked to advise on the public interest aspects for IPSASB consideration. In particular, CAG member input is appreciated to assist the IPSASB in first establishing a clearer big-picture approach to the proposed revenue and transfer expense standards in December 2020. With this big-picture approach as a guide, CAG member input will be requested to assist the IPSASB in tackling specific issues related to the revenue and expenses projects in June 2021.



5. This paper summarizes key issues identified by ED respondents and through outreach undertaken by the IPSASB staff regarding the proposed guidance. The staff also outline potential approaches for the IPSASB to consider related to two key issues, detailed below.

Proposed Guidance in the Revenue EDs

6. ED 70 and ED 71 differentiates revenue transactions into revenue with performance obligations, and revenue without performance obligations. A performance obligation is a promise in a binding arrangement with a purchaser to transfer a good or service, or a series of distinct goods or services, to the purchaser or a third-party beneficiary. A performance obligation is a specific type of present obligation (i.e. performance obligations are a narrow subset of present obligations), and these two types of revenue transactions are addressed in ED 70 and ED 71 respectively.

7. Under ED 70, revenue with performance obligations are accounted for using the Public Sector Performance Obligation Approach (PSPOA), which is based on the revenue recognition model from IFRS 15, *Revenue from Contracts with Customers*. The PSPOA involves the identification of performance obligations in a revenue arrangement, the determination of the transaction price for the arrangement, the allocation of the transaction price to the identified performance obligations, and the recognition of revenue when, or as, performance obligations are satisfied through the transfer of goods or services.

8. For revenue without performance obligations, ED 71 requires an assessment of whether a present obligation, arising from a binding arrangement that requires the recipient to perform specified activities or to incur eligible expenditures, exists upon the recognition of the received resources as an asset. If a present obligation exists, a liability is initially recognized. As the present obligation is satisfied, the liability is drawn down and recognized as revenue.

9. ED 71 also provides guidance for revenue that does not arise from a binding arrangement, where there is a transfer without present obligations. A transfer recipient that receives an inflow of resources from a transaction with no present obligation is immediately recognized as revenue.

10. The following diagram provides a visual comparison between the different types of revenue transactions: those that do not arise from a binding arrangement (i.e. without present obligation) (ED 71), from a binding arrangement with present obligations (ED 71), and from a binding arrangement with performance obligations (ED 70):

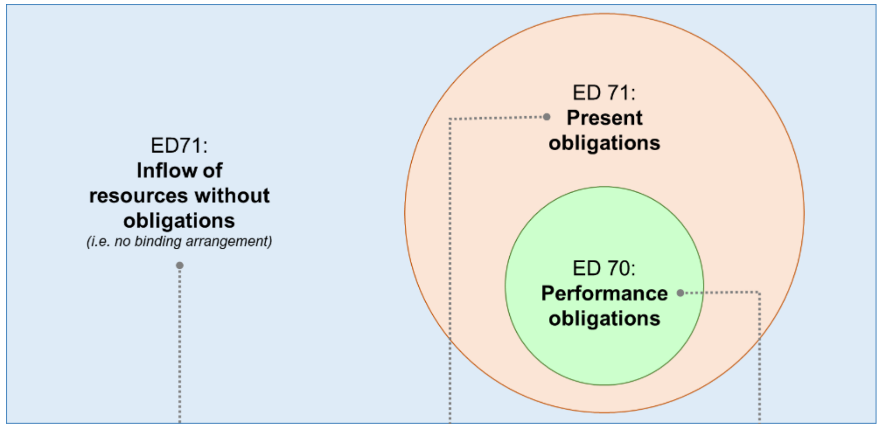


Diagram not to scale

Aspects	Inflow of Resources without Obligations	Present Obligations	Performance Obligations
Arise from binding arrangement	No	Yes: enforceable, particular use of resource is understood by both parties	Yes: enforceable, confers rights and obligations to both parties
Results in outflow of resources with little or no realistic alternative to avoid such outflow	No	Yes	Yes
Transfer of a distinct good or service to purchaser or third-party beneficiary	No	No	Yes

11. The IPSASB also included a flowchart in ED 71 to illustrate the analytic process a transfer recipient undertakes when there is an inflow of resources to determine whether and when revenue is recognized, and whether the transaction is in the scope of ED 70 or ED 71 (see Appendix A).

Proposed Guidance in ED 72

12. ED 72 defines a transfer expense as an expense arising from a transaction, other than taxes, in which a transfer provider provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.

13. In some situations, a transfer expense can embody a performance obligation – e.g., a transfer provider provides resources to a transfer recipient, who is then required to provide a good or service to a third-party beneficiary. In other scenarios, it is possible for a transfer expense to be without performance obligations – e.g., a transfer provider provides resources to a transfer recipient, who then uses the resources for its own benefit.

14. For transfer expenses with performance obligations, ED 72 requires a transfer provider to recognize an asset upon the provision of resources, and the asset is expensed when (or as) the transfer recipient satisfies its performance obligations. If a transfer provider does not monitor the transfer recipient's satisfaction of performance obligations, the arrangement is accounted for as a transfer expense without performance obligations. For example, International Organization A transferred CU 500,000 to Country B to fund the provision of 100,000 doses of vaccines to Country B's citizens. International Organization A can monitor the provision of the distinct good (i.e. the transfer of 100,000 doses of vaccines) to Country B's citizens and concluded that the requirement for Country B

to provide the vaccines to its citizens is a performance obligation. As the vaccines are administered by Country B, International Organization A recognizes an expense of CU 5 per dose.

15. For transfer expenses without performance obligations, ED 72 requires the transfer provider to recognize an expense at the earlier of (i) the point when the entity has a present obligation to transfer resources, and (ii) the point at which the entity loses control of the resources transferred.[1] For example, if International Organization A transferred CU 500,000 to Country B to fund the provision of 100,000 vaccines but concluded that the arrangement is without performance obligations (as it is not able to reasonably monitor the provision of these 100,000 vaccines to the citizens), International Organization A recognizes an expense at the earlier of when it commits to transfer the funds, or when the funds are transferred.

Responses Received and Key Themes on Proposed Guidance in the Revenue EDs

16. The IPSASB received a total of 197 responses[2] across the three EDs — 71 responses for ED 70, 63 responses for ED 71, and 63 responses for ED 72. The proposed EDs were generally well received. Respondents commended the IPSASB for taking on this complex project and developing guidance to address these issues in the public sector.

17. Staff considered the other comments and identified the following key themes prevalent across the EDs in Table 1. While these comments have been aggregated into cumulative themes, staff notes that they are not individually significant or pervasive across all ED responses.

[1] Paragraph 91 of ED 72, *Transfer Expenses.*

[2] Two additional responses were received on November 16 and November 18, 2020, respectively. The responses have not been included in this analysis because of their late arrival and the tight timeline preparing this analysis for the December 2020 meeting. They will be reviewed and incorporated into the March 2021 detailed review of responses.

Table 1

	Overarching Themes			
ED	**Interrelation between EDs**	**Application in Practice**	**Extent of Disclosures**	**Additional Guidance**
ED 70	Some constituents commented that the distinction between performance obligations (ED 70) and present obligations (ED 71) is unclear.	A number of constituents noted the ED does not sufficiently consider the public sector and the complexity and costs of adoption would outweigh benefits. Some constituents noted the proposed separation between performance obligations and present obligations is difficult. A few constituents considered the EDs to be long and complex, which may cause difficulty in application.	A number of constituents indicated that disclosure requirements derived from the private sector are not relevant nor appropriate for public sector transactions, and would be too extensive.	A majority of constituents requested additional guidance to clarify proposed guidance, provide more examples, or further consider measurement principles, among other topics.
ED 71	Some constituents questioned whether separate standards are necessary, as the accounting for transactions is similar, regardless of whether they include performance obligations or not. The distinction between performance obligations and present obligations (ED 71) is unclear.	Most constituents commented that there are complex areas in the ED which would be difficult to apply based on currently proposed guidance. A number of respondents indicated that the EDs are long and complex, which may cause difficulty in application. The current structure (ED 70 before ED 71) does not highlight that the majority of revenue transactions in the public sector are without performance obligations.	Some constituents indicated that disclosure requirements derived from the private sector are not relevant nor appropriate for public sector transactions, and would be too extensive.	A majority of constituents requested additional guidance to clarify proposed guidance, provide more examples, or further consider measurement principles, among other topics.

	Overarching Themes			
ED	**Interrelation between EDs**	**Application in Practice**	**Extent of Disclosures**	**Additional Guidance**
ED 72	Some constituents noted that the distinction between performance and present obligations is unclear. Furthermore, some constituents expressed concern over the lack of "symmetry" between the proposed accounting in ED 72 for transfer expenses without performance obligations and ED 71. These constituents considered that transfer expenses without performance obligations can also give rise to an asset if the transfer recipient has a present obligation (not only in case of performance obligations).	A majority of constituents indicated that the PSPOA approach is complex (more so than in the private sector) and may not be practical. Some constituents noted difficulty in separating transfer expense transactions with performance obligations from those with present obligations. The difficulty in monitoring the satisfaction of performance obligations was also noted as problematic; this could be used to achieve a desired classification of transactions driving a particular accounting outcome.	A number of constituents indicated that disclosure requirements derived from the private sector are not relevant nor appropriate for public sector transactions. These requirements would be too extensive and require changes to systems and processes. Information for disclosures also may not be available or would not provide useful information even when available, as they mirrored the disclosures in the revenue EDs, but require different judgments and risks associated compared with those associated with revenue.	Some constituents requested additional guidance to clarify how to monitor the satisfaction of performance obligations, distinguish between transactions with and without performance obligations, and the relationship with other IPSAS, among other topics.

18. In considering these overarching themes, staff noted two key issues for CAG consideration and discussion. CAG member advice will assist the IPSASB in determining approaches to consider the following issues:

    (a) **Issue 1:** What is the appropriate flow and structure of the standards from a public sector perspective; and

    (b) **Issue 2:** How should the IPSASB determine the appropriate level of disclosures to meet user information needs?

Issue 1: What is the appropriate flow and structure of the standards from a public sector perspective?

19. The proposed standards are interlinked and not intended to be applied on a stand-alone basis. In line with the IPSASB's policy on definitions, a term is only defined in the first standard in which it is used. Therefore, constituents will need to understand the terms and concepts in ED 70 before being able to apply ED 71 or ED 72.

20. Based on the high-level review of comment letters received to date, respondents generally seem to support the overall accounting models proposed. However, respondents have noted concerns in regard to a lack of clarity on the difference between a present obligation (in scope of ED 71) and a performance obligation (in scope of ED 70). Some constituents also indicated confusion as to why ED 70 precedes ED 71, given that ED 70 relates to commercial revenue transactions that comprise a small minority of revenue transactions in the public sector.

21. As noted in paragraph 6, a performance obligation is a specific type of present obligation (i.e. performance obligations are a narrow subset of present obligations), and these two types of revenue transactions are addressed in ED 70 and ED 71 respectively. Paragraph 10 also highlights that the key differentiator is that performance obligations include a transfer of a distinct good or service to purchaser or third-party beneficiary. As such, from an application perspective, it would be more logical to begin with the broader concept of present obligations and then focus on the subset, performance obligations. This ordering change would better match the distribution of revenue transactions in the public sector, where a large majority of revenue transactions are expected to involve arrangements with present obligations.

22. Therefore, staff identifies three possible approaches to structure the guidance, each with benefits and shortcomings related to how the standards and related IPSAS revenue/transfer expenses accounting models present the guidance:

Option 1 – Begin with ED 71

23. The IPSASB could revise the revenue standards by beginning with the principles in ED 71, then follow with the principles in ED 70.

Benefits	Shortcomings
May be more intuitive for constituents because it: • Begins the suite of standards from the "broadest" standpoint (revenue without performance obligations), which comprises the majority of revenue transactions in the public sector), before addressing the subset of revenue (with performance obligations). • Clearer delineation between revenue types, with clear alignment of ED 70 with IFRS 15.	• Additional resource requirements to restructure the two EDs, with ED 71 as the new starting point.

Option 2 – Combine ED 70 and ED 71

24. The IPSASB could combine ED 70 and ED 71 into a single proposed revenue standard.

Benefits	Shortcomings
May be more intuitive for constituents because it: • Begins the suite of standards from the "broadest" standpoint (revenue without performance obligations). • Aggregates all accounting principles and guidance on revenue in one standard. • Minimizes repetition and possible confusion.	• Alignment with IFRS may be less clear, and would require additional time and resources to track and maintain alignment compared with separate standards. • Additional resource requirements to combine and restructure the proposed guidance into a single standard. • Depending on how the combined proposed standard is structured, a high volume of material may not be relevant to many users who only have one type of revenue arrangement. The combined standard may still be long and complex.

Option 3 – Leave order as-is

25. Retain the previous order (ED 70, then ED 71), and incorporate additional guidance into both standards to clarify the overall accounting model for revenues in the public sector context.

Benefits	Shortcomings
• Less resource requirements than the other two options. • Consistent with the ED proposals which, although some constituents have questions, others also did support.	• Would not address some constituents' concerns. • Constituents may still be confused about the overall model. • Would not reflect the volume of transactions in the public sector.

Question for CAG Members:

Which of the above options do CAG members think better serves the public interest, and why?

If the CAG is in favor of retaining and amending ED 70 and ED 71 (Option 3), what specific considerations do CAG members think the IPSASB should include to better address the public sector perspective?

Issue 2: How should the IPSASB determine the appropriate level of disclosures to meet user information needs?

26. ED 70 included all disclosure requirements from IFRS 15, as this proposed standard was intended to align with IFRS, and added a public sector specific disclosure for compelled transactions. These disclosures were also included in ED 71 for consistency across the proposed revenue standards and mirrored for ED 72 for transfer expenses.

27. Constituents highlighted that ED 71 and ED 72 are public sector specific standards, and the inclusion of the voluminous disclosure requirements taken from ED 70, which is designed for commercial

transactions, is unnecessary and may pose significant burden on preparers and provide information that is not useful for users. The issue relates to the volume of potential disclosures, whether they provide useful information, as well as the practicality relating to current systems, processes, and availability of data to the entity in preparing these disclosures. Furthermore, it is noted that:

(a) Binding arrangements without performance obligations (i.e. in the scope of ED 71) would have less judgment and risk entailed than those with performance obligations that include commercial substance similar to the private sector (i.e. in the scope of ED 70).

(b) While transfer expenses are the counterpart of revenue transactions, it is questionable whether the disclosures in ED 72 should mirror those from ED 70 and ED 71 because the transfer provider does not have the same risks as the transfer recipient. Further, it is important that the disclosures consider the needs of public sector users.

28. Therefore, staff developed the following proposed plan to further consider disclosure requirements for both revenue and transfer expenses with greater consideration for public sector user needs:

Revenue	Transfer Expenses
• For arrangements with no binding arrangements: o This is the least onerous type of arrangements in the revenue model, with minimal judgment and risk. As such, required disclosures should focus on (a) how management determined that there is no binding arrangement and (b) how management concluded that they could recognize an asset. • For binding arrangements without performance obligations: o This would cover the majority of revenue transactions in the public sector. The IPSASB can begin with existing IPSAS 23, *Revenue From Non-Exchange Transactions (Taxes and Transfers)* disclosures, which have a public sector focus, and add or remove disclosures based on the usefulness to users of the financial statements. • For binding arrangements with performance obligations: o Commercial transactions likely have the most judgments and risks in terms of timing and amount of inflows. As such, incorporating the disclosures from IFRS 15 (as currently proposed in ED 70) would appropriately reflect the commercial substance of these transactions and communicate useful information to users.	• Critically assess the disclosures currently proposed in ED 72, and remove disclosures that are not useful or appropriate in the public sector. o Where disclosures are removed in ED 70 or ED 71, it can be presumed that they will also not be required in ED 72. • Focus on disclosures that have to do with key judgments (such as the existence of control in determining whether the transfer provider has an asset or expense) and material expenditures as required by IPSAS 1, *Presentation of Financial Statements* paragraph 106; provide relevant information for users of the financial statements; and where the transfer recipient can reasonably be expected to have access to the necessary information.

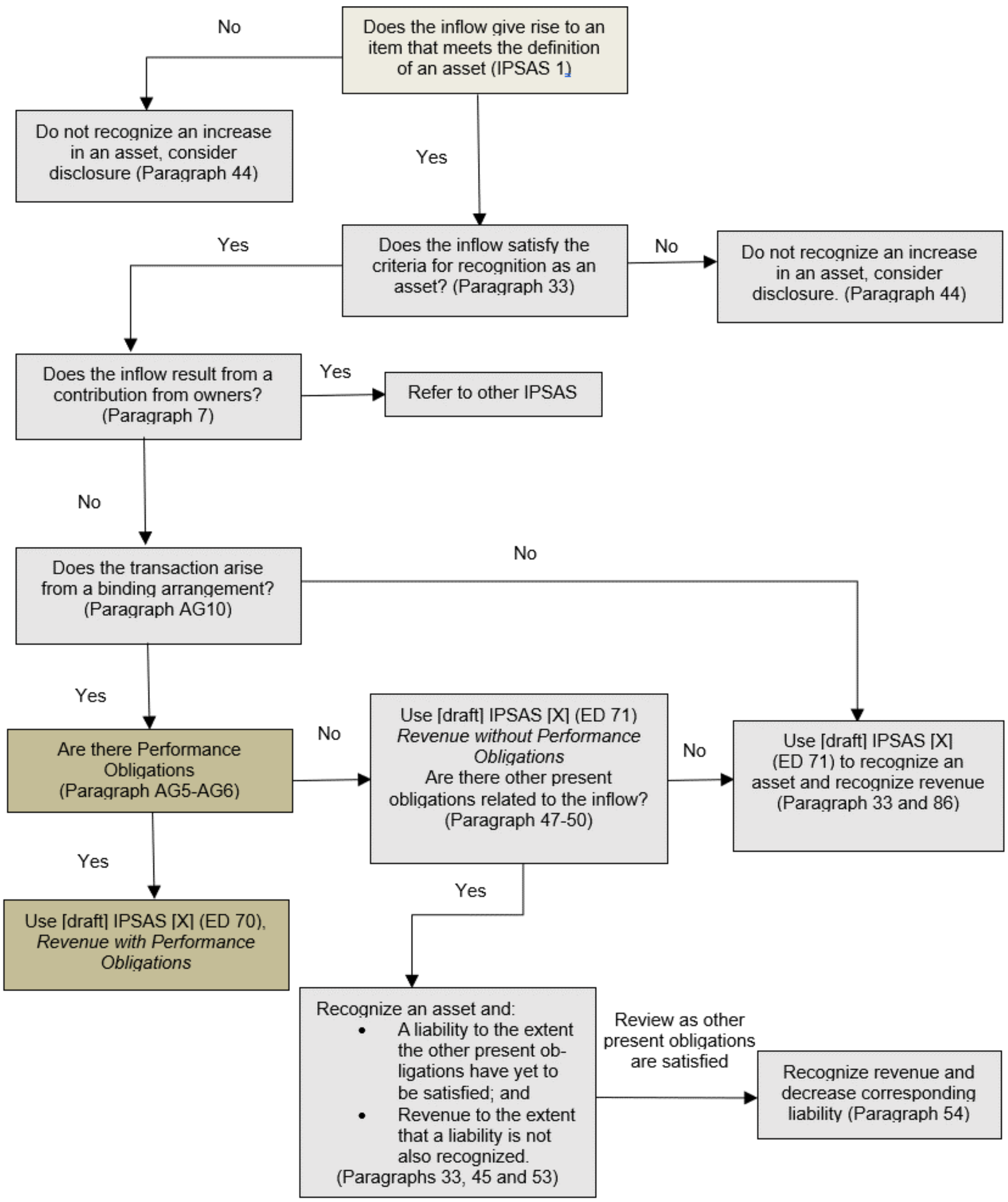
Question for CAG Members:

Do CAG members agree with staff's proposed plan to action stakeholder comments and further assess the substance and extent of disclosure requirements necessary in the proposed standards for revenue and transfer expenses?

If not, are there other considerations or approaches CAG members would recommend be considered when further considering disclosure requirements?

Appendix A: Flowchart to Illustrate Revenue Analysis

1. The flowchart below was included in ED 71 to illustrate the analytic process a transfer recipient undertakes when there is an inflow of resources to determine whether and when revenue is recognized, and clarifies the scoping of transactions in ED 70 or ED 71. It includes the relevant ED 71 paragraphs related to asset, liability and revenue recognition and measurement, for revenue transactions without performance obligations.



* The flowchart is illustrative only and is provided as an aid to interpreting the ED. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability. In determining whether the entity has satisfied all

of the present obligations, the application of the definitions of specified activity or eligible expenditure, and the criteria for recognizing a liability, are considered.

Appendix B: IPSASB Due Process Checklist (condensed to included portions relevant to the CAG)

Project: Revenue and Transfer Expenses

#	Due Process Requirement	Yes/No	Comments
A. Project Brief			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSASB considered the project brief at its March 2015 meeting (see Agenda Item 10).
A2.	The IPSASB has approved the project in a public meeting.	Yes	See the minutes of the March 2015 IPSASB meeting (section 10).
A3.	The IPSASB CAG has been consulted on the project brief.	N/A	This step was not in effect for this project.
B. Development of Proposed International Standard			
B1.	The IPSASB has considered whether to issue a consultation paper or undertake other outreach activities to solicit views on matters under consideration from constituents.	Yes	The IPSASB issued Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* in August 2017.
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	N/A	Yes, all comments received have been publicly posted on the website. The IPSASB has deliberated the feedback received at public IPSASB meetings in forming its views on how to develop the revenue and transfer expenses exposure drafts.
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	Yes	Agenda Items 5 and 7 from June 2018, Agenda Item 7 from December 2018, and Agenda Item 5 from the June 2019 meeting sought the CAG's views on the significant issues to be address in the development of the exposure drafts.
D. Consideration of Respondents' Comments on an Exposure Draft			
D4.	The IPSASB CAG has been consulted on significant issues	Yes	The IPSASB issued Exposure Draft 70, *Revenue with Performance Obligations*, Exposure Draft 71,

#	Due Process Requirement	Yes/No	Comments
	raised by respondents to the exposure draft and the IPSASB's related responses.		*Revenue without Performance Obligations*, and Exposure Draft 72, *Transfer Expenses*. This Agenda Item seeks the CAG's views on significant issues raised in the comment letters received.
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.	N/A	The comprehensive review of responses will be presented to the IPSASB for detailed consideration in early 2021.

Appendix C: Links to Other Documents

1. This appendix provides links to document which may be useful to CAG members in providing a background related to the project.

   (a) Revenue project page

   (b) Transfer Expenses project page

   (c) Exposure Draft 70, *Revenue with Performance Obligations*

   (d) Exposure Draft 71, *Revenue without Performance Obligations*

   (e) Exposure Draft 72, *Transfer Expenses*

   (f) IPSASB Webinar: ED 70, *Revenue with Performance Obligations: An Introduction*

   (g) IPSASB Webinar: ED 71, *Revenue without Performance Obligations: An Introduction*

   (h) IPSASB Webinar: ED 72, *Transfer Expenses: An Introduction*