

Meeting: IPSASB Consultative Advisory Group
Meeting Location: Stellenbosch, South Africa
Meeting Date: December 5, 2016

Agenda Item 3

For:
 Approval
 Discussion
 Information

Technical Director’s Report on the Work Plan

Objective of Agenda Item

1. To receive the Technical Director’s report on the work plan.
2. To note the work plan and key changes to the work plan since the June 2016 meeting.
3. To note the IPSASB report back on the Social Benefits and Revenue and Non-exchange Expenses projects.

Material(s) Presented

Agenda Item 3.1	IPSASB Work Plan: December 2016
Agenda Item 3.2	Social Benefits—Report Back
Agenda Item 3.3	Revenue and Non-exchange Expenses—Report Back

Summary of Changes agreed at September 2016 Meeting

4. Changes to the work plan that were agreed since the June 2016 meeting are as follows:
 - (a) The projects on *Employee Benefits* and *Impairments of Revalued Assets* have been removed following the approval of the final pronouncements at the June 2016 meeting (both included in a list of [projects completed](#) since the last work plan consultation).
 - (b) In light of the analysis of responses presented at the September 2016 meeting, approval of the final pronouncement on *Public Sector Combinations* has been brought forward to December 2016;
 - (c) In light of the volume of consequential amendments, the requirement for the IPSASB to review these amendments as authoritative material, and the possibility of a face-to-face meeting of the Task Based Group, approval of the Exposure Draft (ED) on *Financial Instruments (Update to IPSASs 28–30)* has been deferred until June 2017;
 - (d) Approval of the ED on *Leases* has been deferred until June 2017 to allow for the analysis of further lessor accounting models;
 - (e) Initial discussion of the *Public Sector Measurement* project has been deferrred until March 2017 as the focus on the Social Benefits ED and the Heritage and Revenue and Non-Exchange

Expenses Consultation Papers (CPs) at this meeting does not allow sufficient agenda time for a full discussion; and

- (f) Consistent with the view that discussion on the *Infrastructure* project should start after the initial discussion on *Public Sector Measurement*, the *Infrastructure* project has been deferred until June 2017.

Additional Change since the June 2016 Meeting

5. The initial review of responses to ED 61, *Amendments to Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS™)*, has been deferred until March 2017, because of the very full December 2016 agenda.

Potential Future Changes

6. At its September 2016 meeting, the IPSASB recognized the challenging timetables for the *Revenue and Non-Exchange Expenses* and *Social Benefits* projects in light of the developments at the meeting. No changes have been made to the work plan for these projects, but the position will be reassessed at the initial and final work plan reviews at the December 2016 meeting. The position for *Heritage* will also depend on whether the CP is approved at the December meeting.

Pressures on Respondents

7. At the second work plan session at the September 2016 meeting, a number of members highlighted the workload issues for respondents if the Social Benefits, Leases and Financial Instruments EDs are all approved in June 2017. If the Revenue and Non-Exchange Expenses CP is delayed until March 2017, the consultation period for this CP will potentially be open when one or more of the EDs are published. The Chair and Staff will monitor this issue and come up with proposals for alleviating this burden if necessary. Such measures could include deferring approval of one of these EDs until September 2017, and/or publishing the EDs on a phased basis.

IPSASB CAG June 2016 Report Back

Social Benefits

8. The IPSASB CAG discussed the *Social Benefits* project in June 2016 and September 2016. Following consideration of the CAG advice in June, the IPSASB has decided:
 - Consistent with CAG advice to not include the social contract approach in the draft ED; and
 - Consistent with CAG advice to keep the scope of the project narrow.

Further details of the IPSASB's response to the points raised by CAG members at the June 2016 meeting are provided in [Agenda Item 3.2](#).

Revenue and Non-exchange Expenses

9. The IPSASB CAG discussed the *Revenue and Non-exchange Expenses* project in June 2016. Following consideration of the CAG advice in June, the IPSASB has decided:
 - To restructure the draft Consultation Paper, so that the analyses of potential approaches for initial recognition of revenue and non-exchange expenses are in separate chapters.

- To reorder the categorization of transactions so that transactions without performance obligations are re-termed Category A transactions and considered first, thereby acknowledging their financial significance for many public sector entities.

Further details of the IPSASB's response to the points raised by CAG members at the June 2016 meeting are provided in [Agenda Item 3.3](#).

Agenda Item 3.1

October 2016

IPSASB WORK PLAN: DECEMBER 2016

Project/ Initiative	Links	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	H1 2019	H2 2019	H1 2020	H2 2020
A Public Sector Combinations <i>(ED issued in Jan 2016)</i>		IP												
B Update to IPSASs 28–30, Financial Instruments	C	DI/ED	DI/ED	ED			DI/RR	DI	IP					
C Public Sector Specific Financial Instruments	B, E, F		DI/RR ^a	DI/RR	DI/ED	DI/ED			DI/RR	DI/IP				
D Leases	E	DI	DI/ED	DI/ED ^b			DI/RR	DI/RR	DI/IP					
E Revenue ¹	C, D, F, G	CP ^a			DI/RR	DI	DI	ED			RR/DI	DI/IP		
F Non-Exchange Expenses	C, D, E, G	CP ^a			DI/RR ^c	DI	DI	ED			RR/DI	DI/IP		
G Social Benefits <i>(CP issued in July 2015)</i>	E, F	DI/ED	DI/ED	ED ^c			DI/RR	DI	IP					
H Public Sector Measurement	I, J		DI	DI	DI	CP ^d				RR	DI/RR	ED	RR	IP ^e
I Infrastructure Assets	H			DI	DI	CP				RR	DI/RR	ED	RR	IP ^e

¹ Comprehensive project covering both exchange and non-exchange revenues.

IPSASB Work Plan: December 2016
IPSASB CAG Meeting (December 2016)

Project/ Initiative	Links	Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	H1 2019	H2 2019	H1 2020	H2 2020
J Heritage	H	CP			DI/RR	DI/RR	DI/ED	ED			DI/RR	DI/IP ^e		
K Improvements ²				DI/ED		RR/IP					DI/ED	RR/IP		
L Review of Cash Basis IPSAS (ED issued in Feb.2016)			RR/IP	IP										
M Emissions Trading Schemes³	B ^f	Project Paused												
N IPSASB Handbook				Publish				Publish			Publish		Publish	

Key: IP = Final Standard or Amendments to IPSAS(s); RP = Final Recommended Practice Guidance; ED = Approval of Exposure Draft; PB = Project Brief; DI = Discussion of Issues; RR = Review Responses; CP = Consultation Paper; CG = Consultative Advisory Group Meeting; SB=Staff Background Paper

² The improvements project is an ongoing biannual project that includes the following: (i) consequential amendments arising from the completion of the Conceptual Framework; (ii) general improvements to IFRS; (iii) changes intended to eliminate or narrow differences with statistical accounting; and (iv) consequential amendments arising from changes to IFRS.

³ The initial phase of this project is a joint research project with the IASB. A decision to pause the project was made at the March 2016 meeting.

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- a The IPSASB agreed that statutory receivables and statutory payables would be addressed in the revenues and non-exchange expenses projects respectively, rather than in the public sector financial instruments project.
 - b IFRS 16, *Leases*, applies IFRS 15, *Revenue from Customers*, for sale and leaseback transactions. As the IPSASB's leases project is currently scheduled to be completed before its revenues project, the IPSASB will need to consider how to address this dependency.
 - c Because the non-exchange expenses and social benefits projects cover transactions that have a similar economic substance, the IPSASB has agreed that a degree of alignment between the projects will be necessary. Consequently, the IPSASB will review the responses to the combined revenue and non-exchange expenses project to ascertain whether any issues have been identified that would require amendments to the social benefits project prior to considering the social benefits ED for approval.
 - d Following the issuance of the amendments to IPSASs 21 and 26 as a result of the revaluation of impaired assets project, further consideration of issues such as the unit of account will be considered as part of the public sector measurement project.
 - e The outcomes of the infrastructure assets and heritage assets projects will need to be consistent with the outcomes of the public sector measurement project.
 - f The Emissions Trading Scheme project may consider a financial instruments model for accounting for allowances.

October 2016

PROJECTS COMPLETED SINCE LAST WORK PLAN CONSULTATION

Project	Date Issued
Narrow scope amendments: <i>Impairment of Revalued Assets</i> (Amendments to IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i> , and IPSAS 26, <i>Impairment of Cash-Generating Assets</i>)	July 2016
IPSAS 39, <i>Employee Benefits</i>	July 2016
2016 Handbook of International Public Sector Accounting Pronouncements	July 2016 (online) September 2016 (print)
Narrow scope amendments: <i>The Applicability of IPSASs</i>	April 2016
<i>Improvements to IPSAS 2015</i>	April 2016
2015 Handbook of International Public Sector Accounting Pronouncements	December 2015
RPG 3, <i>Reporting Service Performance Information</i>	March 2015
IPSAS 38, <i>Disclosure of Interests in Other Entities</i>	January 2015
IPSAS 37, <i>Joint Arrangements</i>	January 2015
IPSAS 36, <i>Investments in Associates and Joint Ventures</i>	January 2015
IPSAS 35, <i>Consolidated Financial Statements</i>	January 2015
IPSAS 34, <i>Separate Financial Statements</i>	January 2015
IPSAS 33, <i>First-time Adoption of Accrual Basis IPSASs</i>	January 2015
<i>Improvements to IPSASs 2014</i>	January 2015
Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities	October 2014
2014 Handbook of International Public Sector Accounting Pronouncements	June 2014

Agenda Item 3.2

Social Benefits—Report Back

June 2016 CAG Discussions

1. Extracts from the draft minutes of the June 2016 CAG Social Benefits discussions and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

Representatives' and Observers' Comments	IPSASB Response
June 2016 CAG Meeting Comments	
<ul style="list-style-type: none"> • Mr. Ramkumar and Ms. Kiure-Mssusa sought clarification on how social benefits would be accounted for, and presented in the financial statements, under the different approaches set out in the CP. Mr. Mason provided examples to explain how the approaches would operate, and highlighted those areas where the IPSASB has yet to make decisions. 	No further action required.
<ul style="list-style-type: none"> • Mr. Yousef questioned whether a separate standard on social benefits is necessary, and suggested that this issue could be addressed simply by removing the current scope exclusion in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets. 	No further action required – see response below from Mr. Stanford.
<ul style="list-style-type: none"> • Mr. Stanford explained that, for many entities, social benefits account for 30%—40% of their expenditure. Including these transactions within the scope of IPSAS 19 is unlikely to recognize the importance of these transactions, and will not provide the clarity and consistency required. 	No further action required.

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Idris commented that there is a moral demand on the accounting profession to be doing more in the area of social responsibility. Mr. Müller-Marqués Berger explained that this is the reason the IPSASB is developing a standard (noting the reasons set out by Mr. Stanford previously). Mr. Carruthers agreed that there is a need to speak to society, and that this was why the IPSASB had developed RPG 1, Reporting on the Long-Term Sustainability of an Entity's Finances, which may be a better place to discuss some of these issues. 	<p>No further action required.</p>
<p><i>Issue 1: Approaches to be included in the Exposure Draft</i></p>	
<ul style="list-style-type: none"> Mr. Kraff supported the proposals, noting that in Germany social benefit schemes would best fit with the two recommended approaches. 	<p>No further action required.</p>
<ul style="list-style-type: none"> Ms. Kiure-Mssusa also supported the proposals, noting that in Tanzania a liability for the next year is recognized for certain programs delivering social benefits. 	<p>No further action required.</p>
<ul style="list-style-type: none"> Ms. Kiure-Mssusa commented that there is a debate as to whether this obligation should be reported as a liability or disclosed as a commitment. Those favoring the latter treatment consider that that it is a future obligation for the next year and should not be recognized unless the expected tax receipts for that year are also recognized. 	<p>The IPSASB is still debating the point(s) at which an obligation becomes a liability for social benefit schemes. The IPSASB will provide feedback at a future CAG meeting.</p>
<ul style="list-style-type: none"> Mr. Matthews supported the proposals based on the Conceptual Framework and the responses to the CP, and commented that he was more comfortable with the obligating event approach. 	<p>No further action required.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Matthews commented that there could be difficulties with the insurance approach. Some insurance schemes, such as employment insurance, are not meant to be fully funded in a particularly year but over the “economic cycle”, which is becoming increasingly difficult to determine. He also cautioned the IPSASB to be careful that the description of the insurance approach doesn’t give the impression that “fully funded” schemes are preferable to other schemes. 	<p>The IPSASB is still discussing when the insurance approach will be applicable, and will take these comments into account when coming to a decision. The IPSASB will provide feedback at a future CAG meeting.</p>
<ul style="list-style-type: none"> Mr. Gisby commented that within the European constituency, there were cultural influences that give rise to differing views between jurisdictions that followed more rule-based frameworks, and favored later recognition points compared to those jurisdictions that followed more principle-based frameworks and favored earlier recognition points. 	<p>No further action required.</p>
<ul style="list-style-type: none"> Mr. Gisby commented that there were concerns that the social contract approach, by limiting the liability that would be recognized to those that were legally due, would limit discussion about the sustainability and management of social benefit schemes. 	<p>The IPSASB noted this point in agreeing not to proceed with the social contract approach.</p>
<ul style="list-style-type: none"> Mr. Viana commented that in Portugal, the most likely recognition point under the obligating event approach will be when the claim is approved, as the government can change the law up to that point. 	<p>The IPSASB is still debating the point(s) at which an obligation becomes a liability for social benefit schemes. The IPSASB will provide feedback at a future CAG meeting.</p>
<ul style="list-style-type: none"> Mr. Viana also commented that it will be important that the obligating event approach takes into account and addresses implementation issues. 	<p>The IPSASB has yet to discuss transition arrangements, which will consider implementation issues, and will take these comments into account when coming to a decision. The IPSASB will provide feedback at a future CAG meeting.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Boutin commented that the social contract approach would present challenges and would not be applicable in all jurisdictions, for example those jurisdictions in which there is no taxation, such as the United Arab Emirates. 	<p>The IPSASB noted this point in agreeing not to proceed with the social contract approach.</p>
<ul style="list-style-type: none"> Mr. Boutin commented that the insurance approach would only be applicable in some circumstances. He raised the question as to whether netting of inflows and outflows would be consistent with the Conceptual Framework, and considered that guidance would be needed to identify circumstances when the approach would be appropriate. The insurance approach is likely to be complex, and there would be concerns if it was mandatory. 	<p>The IPSASB is still discussing when the insurance approach will be applicable, and will take these comments into account when coming to a decision. The IPSASB will provide feedback at a future CAG meeting.</p>
<ul style="list-style-type: none"> A number of members (Ms. Kim, Ms. Cearns, Ms. Sanderson, Mr. Idris and Ms. Colignon) supported the view that a future standard would need to be flexible and principles based to cover all the circumstances that could arise. 	<p>The IPSASB noted these comments.</p>
<ul style="list-style-type: none"> Ms. Cearns commented that the recognition of a liability should be de-linked from the funding of that liability, and that guidance on determining the obligating event would be required. 	<p>The IPSASB has agreed that the contributory or non-contributory nature of a social benefit scheme does not change the obligating event.</p>
<ul style="list-style-type: none"> Ms. Cearns raised the question of the timing of the finalization of the insurance standard by the IASB, and how this would fit with the IPSASB's timetable for this approach. 	<p>The IPSASB noted that the IASB is expected to issue its insurance standard prior to the IPSASB issuing its ED on social benefits.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Idris shared his experience in Nigeria, commenting that some subsidies had been withdrawn because of the potential for corruption. He also commented that the government has invested significant funds in social programs such as school food programs recently. It is important that the standard addresses the root problems that societies face. 	<p>The IPSASB noted this comment.</p>
<ul style="list-style-type: none"> Ms. Colignon commented that France supported the obligating event approach, and saw this as the overarching or fundamental approach. The insurance approach might possibly be appropriate in some circumstances. It would be helpful to have a hierarchy to provide guidance on which approach to follow in which circumstances. 	<p>No further action required.</p>
<ul style="list-style-type: none"> Mr. van Schaik asked if there were any examples of countries using these approaches. Mr. Carruthers gave the example of the US, where the information is disclosed in the financial statements. Ms. Ryan (IPSASB Member) explained how the principles of insurance accounting are being used in New Zealand for certain programs with the characteristics of insurance schemes. 	<p>No further action required.</p>
<ul style="list-style-type: none"> Mr. Ramkumar asked what would be the impact on developing countries. If they did not have good information to produce the financial statements, what would be the impact on budgets? Would people lose benefits if the government had not included the correct liabilities in its financial statements? 	<p>No further action required – see response from Mr. Mason and Mr. Carruthers below.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Mason explained that the link to budgets depends on the jurisdiction, with most jurisdictions still using cash budgets. Where budgets are accrual based, the impact will depend on what recognition point is used, which is still being considered. In respect of benefit payments, these are set out in legislation, and are not affected by whether or not they are recognized as a liability. Mr. Carruthers added that the underlying question is about the quality of information used for financial reporting. Requiring governments to account for items such as social benefits necessitates better information for accounting purposes, which can lead to better management. 	<p>No further action required.</p>
<p><i>Issue 2: Application of the insurance approach</i></p>	
<ul style="list-style-type: none"> Mr. Müller-Marqués Berger sought clarification that if the application of the insurance approach was limited to fully funded schemes, subsidized schemes would follow the obligating event approach. Mr. Mason confirmed that this was the case. 	<p>No further action required.</p>
<ul style="list-style-type: none"> Mr. van Schaik asked if this meant that any subsidy – even a dollar or a euro – would mean that the scheme would need to be accounted for under the obligating event approach. Mr. Mason explained that the IPSASB still needed to discuss the boundary, but that the feedback the IPSASB has received suggested the insurance approach was not appropriate for subsidized schemes. Mr. Mason explained that there would be a need to define what was meant by “fully funded”, giving the Canada Pension Plan as an example. 	<p>The IPSASB is still discussing when the insurance approach will be applicable, and will take these comments into account when coming to a decision. The IPSASB will provide feedback at a future CAG meeting.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Ms. Colignon sought clarification as to whether there would be a contributory scheme / non-contributory scheme boundary, and Mr. Mason commented that the IPSASB still needed to consider what was meant by "fully funded" and where the boundary would lay. 	<p>The IPSASB is still discussing when the insurance approach will be applicable, and will take these comments into account when coming to a decision. The IPSASB will provide feedback at a future CAG meeting.</p>
<ul style="list-style-type: none"> Ms. Cearns cautioned against spending too much time debating the boundary issue in advance of the IASB publishing the insurance standard, as the boundary may fall out naturally from the standard. 	<p>The IPSASB is still discussing when the insurance approach will be applicable, and will take these comments into account when coming to a decision. The IPSASB will provide feedback at a future CAG meeting.</p>
<ul style="list-style-type: none"> Mr. Viana commented that the insurance approach should only address defined benefit schemes. 	<p>The IPSASB is still discussing when the insurance approach will be applicable, and will take these comments into account when coming to a decision. The IPSASB will provide feedback at a future CAG meeting.</p>
<p><i>Issue 3: Scope of the project (types of benefits covered)</i></p>	
<ul style="list-style-type: none"> Ms. Sanderson commented that it could be difficult to understand what the proposals would mean in practice, and asked for examples of the types of benefits that could be covered by the scope proposed in the agenda papers. Mr. Mason provided the example of the National Health Service in the United Kingdom. 	<p>No further action required.</p>
<ul style="list-style-type: none"> Ms. Sanderson cautioned against adopting too wide a scope for the project, citing the risk of "scope creep". She recommended that the IPSASB limit the scope of the project to narrower "welfare" style schemes. 	<p>The IPSASB noted this comment, and is currently debating a narrower scope of the project that is limited to "welfare" style schemes.</p>

Matters for CAG Consideration

- Representatives and Observers are asked to note the Report Back above.

Appendix

Project: Social Benefits

Summary

	CAG Meeting	IPSASB Meeting
Discussion of Feedback from Consultation Paper and Development of the Exposure Draft	June 2016	March 2016 June 2016
Discussion of Feedback from Consultation Paper and Development of the Exposure Draft	-	September 2016
Discussion of Feedback from Consultation Paper and Development of the Exposure Draft	December 2016 (report back)	December 2016

CAG Discussions: Detailed References

IPSASB Staff Discussion with the CAG - Feedback from Consultation Paper and Development of the Exposure Draft	<p><u>June 2016 CAG Discussions</u></p> <p>See IPSASB CAG meeting material: http://www.ipsasb.org/system/files/meetings/files/CAG-Item-5-Social-Benefits.pdf</p>
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Agenda Item 3.3

Revenue and Non-exchange Expenses—Report Back

June 2016 CAG Discussions

1. Extracts from the draft minutes of the June 2016 CAG and how the IPSASB has responded to the Representatives' and Observers' comments are included in the table below.

Representatives' and Observers' Comments	IPSASB Response
June 2016 CAG Meeting Comments	
<p><i>Staff introduced the following related to revenue aspect of the project:</i></p> <p><i>The current IPSAS standards, their links to IFRS and IFRS 15, Revenue from Contracts with Customers;</i></p> <ul style="list-style-type: none"> • <i>The project objectives; and</i> • <i>The two approaches to classifying revenue transactions – performance obligation/no performance obligation (referred to as the performance obligation approach) or exchange/non-exchange.</i> 	
<ul style="list-style-type: none"> • Mr. van Schaik commented that IFRS 15 addresses contracts with customers, and excludes government grants, which are still dealt with under IAS 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>. Could this provide an opportunity for the IPSASB to work with the IASB to develop a joint standard? Mr. Stanford commented that while this would be desirable, the IASB did not have a project to address IAS 20, and the subject was not even in the IASB's research pipeline. 	<p>Confirmed with IASB Staff that there are no current plans to initiate a project to amend IAS 20. It appears unlikely that IASB will initiate any such project until at least after the next consultation on strategy and work plan, which staff understands will be about 2019.</p>
<ul style="list-style-type: none"> • Ms. Cearns commented that she found the papers difficult to follow and asked when the performance obligation approach could be extended, and how. 	<p>The comments were mirrored at the subsequent IPSASB meeting, particularly over the mixture of draft chapters and issues papers See also other comments on Consultation Paper (CP) structure.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Ms. Cearns commented that including expenses in the performance obligation approach would be problematic. Although it sounded attractive to maintain the link with revenue, having such a wide scope would make it difficult to establish any rationale. 	<p>The Public Sector Performance Obligation approach has been included as one of three potential approaches for the recognition of non-exchange expenses. While such an approach might theoretically lead to consistency of accounting between resource providers and resource recipients it requires symmetry of information that might not exist in practice.</p>
<ul style="list-style-type: none"> Mr. Müller-Marqués Berger explained his understanding of the approaches using a diagram drawn at the flipchart. 	<p>A version of the diagram has been developed and is included in the version of the Consultation Paper in the agenda material for the IPSASB's December meeting.</p>
<ul style="list-style-type: none"> Mr. Stanford explained that, under the performance obligation approach, Category A is a mirror of IFRS 15. Category B is where performance obligations can be identified, but these are not in the scope of IFRS 15 because they do not include all of the required features. Category C is where no performance obligations exist. These transactions will be covered by a residual standard (currently IPSAS 23, although it is expected that it would cover fewer transactions if a performance obligation approach is adopted). 	<p>This broadly summarizes the classification of revenue transactions. Following comments by some CAG members the classification scheme has been reordered so that Category A transactions are those with no performance obligations and Category C transactions are those that have all the characteristics of transactions in scope of IFRS 15. Category B transactions are the same as in the June CAG papers.</p>
<ul style="list-style-type: none"> Ms. Cearns commented that the principal versus agent arrangement issue needs to be covered for completeness. She asked how common such transactions are in the public sector, and Mr. Carruthers noted that tax collection, where an agency or department collects tax for the government as a whole, is a common example. 	<p>References to the need to consider whether resource recipient is acting as an agent and the accounting implications have been added to the draft Consultation Paper.</p>
<ul style="list-style-type: none"> Ms. Colignon commented that IFRS 15 will come into effect in 2018, and that lots of issues are already being raised. She expressed concern about trying to tweak a standard that has not yet been implemented and where the issues are not yet fully known. 	<p>The fact that IFRS 15 is a new standard which does not become effective until January 1 2018 and that the IASB has issued clarifying amendments subsequent to IFRS 15's publication, are all mentioned in the draft CP.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Ms. Colignon commented that while there may be fewer transactions in Category C under the performance obligation approach, these will still include, for example, tax revenue, which is a significant part of government revenue. Such transactions need to be given sufficient emphasis. 	<p>Accepted that (what were at the time of the CAG meeting) Category C transactions will include highly significant transactions for many entities, such as taxation and inter-governmental transfers. Such transactions will continue to be in the scope of IPSAS 23 or a standard incorporating IPSAS 23 principles.</p>
<ul style="list-style-type: none"> Ms. Kiure-Mssusa commented that the regulatory regime in some countries may mean that symmetry between revenue and expenses may not be appropriate. Where central government gives a grant to local government to build a road or a hospital, local government can recognize revenue in Category A as there is a performance obligation. However, if the funding has been voted by Parliament, the government's only obligation will be to transfer the funds, so this would not fall within Category A for expenses. 	<p>The extent to which consistency of approach in accounting between resource providers and resource recipients is desirable and feasible is one of the issues on which the IPSASB is consulting.</p> <p>Staff believes it is questionable whether the arrangement outlined would be a transaction that is within the IFRS 15 definition/scope, because it is difficult to identify the customer.</p> <p>The IPSASB has confirmed that in order for an arrangement to be addressed in the Public Sector Performance Obligation Approach a performance obligation must be enforceable, although the Consultation Paper will reflect public sector mechanisms in its discussion of enforceability rather than just contractual ones.</p>
<p><i>Issue 1: Extent to which a performance obligation approach can be extended beyond revenue from contracts with customers</i></p>	
<ul style="list-style-type: none"> Ms. Cearns commented that the modifications may have gone further than necessary. The approach could be extended to include the delivery of all goods and services, not just delivery to customers. Otherwise, the performance obligation approach gets circular – a performance obligation is satisfied by delivering a performance obligation. 	<p>The CP is exploring whether the performance obligation approach can be extended to non-contractual arrangements where the resource recipient provides services (or goods) to a resource beneficiary rather than the resource provider.</p> <p>Comment on potential circularity of discussion noted and will be taken into account in finalization of Consultation Paper.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Carruthers commented that in the public sector, the main focus would be on services. 	<p>Main focus of revised paper is on Category B transactions. However, the CP is exploring revisions to IPSAS 23, in particular related to time requirements, capital grants and services in kind.</p>
<ul style="list-style-type: none"> Ms. Cearns commented that services are more complex, and focusing on these would be helpful, although transfers of goods do occur. 	<p>While the emphasis is on services, Consultation Paper acknowledges that goods are within the scope of the Public Sector Performance Obligation approach</p>
<ul style="list-style-type: none"> Mr. Müller-Marqués Berger asked if this view was generally supported by the CAG. 	<p>See above.</p>
<ul style="list-style-type: none"> Ms. Kim commented that she has difficulty with the scope. IFRS 15 scopes out transactions that do not involve customers; extending this makes the scope less clear. The classification would be based on whether a performance obligation exists, which may not be clear. 	<p>The draft CP is exploring and seeking feedback on whether Category B transactions could be addressed in a public sector variant of the IFRS 15 performance obligation approach</p>
<ul style="list-style-type: none"> Mr. Yousef commented that he supported the comments made by Ms. Cearns. He commented that one of the reasons for issuing IFRS 15 was i because companies were bundling goods and services and, under IAS 18, it was difficult to know when to recognize revenue. He commented that IFRS 15 is control based, whereas the other revenue standards are risk and rewards based. 	<p>Noted. See above. The control-based underpinning of IFRS 15 is consistent with the IPSASB's Conceptual Framework.</p>
<ul style="list-style-type: none"> Mr. Carruthers responded that IPSAS 23 is also control based – the first question to ask is whether an entity has an asset. 	<p>Reflected in the summary of IPSAS 23 in the draft CP.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Matthews commented that he was not convinced that the performance obligation approach will provide better, more consistent information than the exchange/non-exchange approach. 	<p>Noted. The purpose of the consultation is to obtain feedback on whether categorizing transactions according to whether they contain identifiable and specific performance obligations might improve the quality of information in financial reports.</p> <p>The IPSASB acknowledges a view that the public sector performance obligation approach might be over-complex and difficult to implement. For example, as noted in a comment below some arrangements may contain funding for a variety of activities, for some, but not all of which, there are performance obligations.</p>
<ul style="list-style-type: none"> Ms. Cearns discussed the boundary between Category B and Category C transactions. Grants may be provided for a range of activities, some of which have performance obligations and some do not. In such cases should the grant be split between the categories, or should it all be treated as Category C because splitting it is too difficult? 	<p>If a funding arrangement contains what IPSASB has termed a general or donation component and a number of identifiable and specific performance obligations it would be necessary to split the two components.</p> <p>This is undoubtedly a complication with the performance obligation approach. Currently IPSAS 23 notes that a transaction may have an exchange and non-exchange component and that the components should be recognized in accordance with the requirements of different IPSASs. If it is not possible to distinguish separate exchange and non-exchange components, the transaction is treated as a non-exchange transaction (IPSAS 23.40-41).</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Carruthers referred to Ms. Colignon's earlier point that the majority of transactions are taxes and transfers – Category C. There are some issues with the application of IPSAS 23, so should this be an important focus of the project? For expenses, the driver for the project is the lack of a standard, and stakeholders are saying we should have one. This might mean reversing the categories – starting with a discussion of what are currently Category C transactions. This might improve communication with stakeholders without changing much of the thinking. 	<p>See above and below. Category C transactions have now been re-termed Category A transactions and discussion of these transactions precedes Category B and C.</p>
<p><i>Issue 2: Implementation issues with IPSAS 23</i></p>	
<ul style="list-style-type: none"> Mr. Müller-Marqués Berger noted that this approach is a continuation of the discussion that took place when developing the Conceptual Framework. Mr. Stanford provided more information on Framework discussions. 	<p>The draft Consultation Paper acknowledges and draws on discussions during the development of the Conceptual Framework, particularly in relation to time requirements.</p>
<ul style="list-style-type: none"> Mr. Müller-Marqués Berger commented that international organizations also struggle with day one gains, and that he would support the approach as it helps presentation in these circumstances. 	<p>Noted, this comment was subsequently confirmed strongly by a presentation that Staff made to the UN System Task Force on Accounting in October 2016. Participants said that accounting for multi-year funding arrangements under IPSAS 23 is ambiguous and subject to differing audit views.</p>
<ul style="list-style-type: none"> Mr. Kraff commented that deferring revenue and expense recognition was essential for the European Commission. Many schemes involve pre-financing and this should be recognized as a liability for the recipients, even if it does not meet the Conceptual Framework definition of a liability. 	<p>Noted that in dealing with time requirements Chapter 4 of the draft CP discusses the possible use of 'other resources' and 'other obligations'.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Boutin commented that he was not comfortable with overriding the definitions of elements in the Conceptual Framework. He understood the issue – wishing to match – but was not comfortable with the approach. If an entity has unrestricted cash, it has unrestricted cash, not a liability. 	<p>As explained at the initial CAG meeting the use of 'other resources' and 'other obligations' would not be inconsistent with the Conceptual Framework. However, 'other resources' and 'other obligations' have not been used at standards level so their use would be a major development in IPSASB standard setting.</p>
<ul style="list-style-type: none"> Mr. Carruthers asked why the European Commission gave cash in advance (pre-financing). Mr. Kraff explained that pre-financing provides a float to finance projects that are in the political interests of the EU. Beneficiaries may have limited liquidity, and projects might not proceed without pre-financing. 	<p>Noted-pre-financing is a specific issue for the European Commission. As such it has not been directly addressed in the draft CP. Issue is whether the Commission as resource provider controls the resource (cash) following transfer. If not, it is difficult to see that the definition of an asset in both IPSASB's Conceptual Framework and its pre-Framework literature.</p>
<ul style="list-style-type: none"> Mr. Stanford commented that the use of other resources and other obligations would not be inconsistent with the Conceptual Framework. However, other resources and other obligations have not been used at standards level so this would be a major development. The IPSASB had also considered presentation options and recycling (similar to the Other Comprehensive Income approach in IFRS) during the development of the Conceptual Framework and had not supported such approaches. 	<p>These approaches are all included in the draft CP as possible approaches for addressing the time requirements issue that has been highlighted as an implementation issue for IPSAS 23; i.e., time requirements are restrictions rather than conditions.</p>
<ul style="list-style-type: none"> Mr. van Schaik commented that he shared Mr. Boutin's concerns over deviating from the Conceptual Framework so soon after its publication, particularly as the IPSASB had rejected deferred inflows and outflows. 	<p>The ED on Elements in the Conceptual Framework project did propose defining 'deferred inflows' and 'deferred outflows' as elements—for non-exchange transactions where resource provider had specified use in identified reporting periods. Following consultation, the IPSASB did not continue with this proposal. However, the Framework does acknowledge that there may be circumstances where such other economic phenomena might be used in order to meet the objectives of financial reporting. These would be specified at standards-level.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Stanford commented that while the IPSASB had rejected deferred inflows and outflows as elements, the Conceptual Framework allowed the use of other resources and other obligations to meet the objectives of financial reporting. 	<p>See comments above.</p>
<ul style="list-style-type: none"> Ms. Sanderson commented that in Australia, states and territories recognize revenue once you gain control of the cash. This can be an issue where funding is brought forward. Ms. Sanderson also noted that the distinction between fees for services and grants is becoming blurred and such a differentiation can be difficult. 	<p>Noted. The approach outlined is similar to IPSAS 23 in that an entity recognizes revenue when it gains control of an asset.</p> <p>Noted that when an arrangement contains identifiable and separate performance obligations and funding is based on the satisfaction of these performance obligations the distinction between fees for services and grants can be blurred. The distinction between taxes and fees and can also be blurred in areas like water supply. It is important to reflect the economic substance of a transaction.</p>
<p><i>Issue 3: Presentation options:</i></p>	
<ul style="list-style-type: none"> Ms. Cearns commented that she did not generally support the presentation options as they fudged the issue. Having said that, an Other Comprehensive Income (OCI) approach would allow recycling and would allow all the gains to go through the performance statement. However, it is still a fudge as you haven't defined what revenue is. This would be more consistent with the private sector, but it would be preferable to be clearer about what constitutes financial performance. 	<p>IPSASB carried out some preliminary work on financial performance during development of its Conceptual Framework. Some of this is reported in the Basis for Conclusions of Chapter 5. The IPSASB acknowledged that thinking about the meaning of financial performance in the public sector is at an early stage. The New Zealand Accounting Standards Board currently has a project on financial performance.</p> <p>During discussions on time requirements in the Conceptual Framework there were considerable reservations about adoption of an approach that mirrored, or was similar to OCI.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Ms. Kiure-Mssusa commented that this approach seemed to be reverting to a previous version of IAS 20 which required amounts to be recognized in equity, then recycled. 	<p>Noted. When the Conceptual Framework was developed one option proposed by staff was to initially recognize multi-year grants in net assets/equity (the IPSASB version of equity in IFRS) and to recycle them in the periods for which the resource provider had indicated they should be used. The approach received little support. Some considered that it was close to an OCI-based approach.</p>
<p><i>Staff introduced the Non-Exchange Expenses Aspect of the project</i></p>	
<ul style="list-style-type: none"> Ms. Colignon suggested that Category C transactions should be considered first, they are the most voluminous and important in public sector. 	<p>Classification scheme has been revised so that transactions with no performance obligations are now Category A transactions, reflecting their financial significance for many public sector entities.</p>
<p><i>Issue 1: Application of performance obligation approach to expense transactions</i> <i>Can a performance obligation approach be applied to non-exchange expenses?</i></p>	
<ul style="list-style-type: none"> Ms. Cearns supported exploring whether the performance obligations perspective could be used to develop sub-categories of non-exchange transactions, so that a more detailed, more complex taxonomy for such transactions could be considered. Although this would be a useful approach, it could be the case that, after considering a more complex set of classifications of transactions, the conclusion could be that the current more simple approach (exchange/non-exchange) makes more sense. 	<p>A graphic has been inserted in the draft CP indicating how particular transactions would be accounted for using performance obligation approaches.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Stanford noted that the project is at Consultation Paper development stage. He explained that the IPSASB had decided to develop a combined Consultation Paper covering both revenue and expenses because the IPSASB was concerned about the extent of the potential duplication of material if there are separate consultations. In response to a question by Mr. Müller-Marqués Berger the CAG indicated general support for this explanation. 	<p>Noted. The IPSASB is continuing with a joint Consultation Paper covering both revenue and non-exchange expenses.</p>
<ul style="list-style-type: none"> Mr. Stanford expressed a view that Ms. Cearns appeared to support considering if the performance obligation approach works in the context of non-exchange expense transactions. Mr. Carruthers expressed a view that it made more sense to deal with the non-exchange side first as performance obligations are likely to be more immediately relevant to exchange transactions. There is currently a gap in the literature for many non-exchange transactions, so that is the important area to focus on. 	<p>The Consultation Paper states that exchange expenses are outside the scope. Chapter 5 of the revised Consultation Paper deals with non-exchange expenses.</p>
<ul style="list-style-type: none"> Mr. Van Schaik expressed reservations whether the IPSASB should prioritize revenue over expenses, because IPSASB already has a standard—IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)—dealing with non-exchange revenue. Therefore Mr. Van Schaik considered that non-exchange expenses should be prioritized. 	<p>The CP deals with both revenue and non-exchange expenses. The IPSASB considered it appropriate to address a number of implementation issues in IPSAS 23.</p>
<ul style="list-style-type: none"> Mr. Carruthers expressed a view that the IPSAB did not need to unpick the approach to exchange expenses. 	<p>See above.</p>
<ul style="list-style-type: none"> Mr. Müller-Marqués Berger and Mr. Carruthers both considered that many of these considerations relate to the structure of the Consultation Paper. 	<p>Following the CAG meeting the draft CP was restructured so that there are chapters dealing with revenue and non-exchange expenses as separate topics rather than chapters for each of the approaches.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Viana proposed a “mirror analysis” of IPSAS 23 to address non-exchange expenses and said that he had taken such an approach in the development of the public sector accounting model in Portugal. Mr. Stanford concurred that one vehicle to deal with this topic is to “mirror” IPSAS 23. He said that a further option identified by the IPSASB is to address non-exchange expenses by expanding the scope of IPSAS 19. 	<p>The Reverse IPSAS 23 Approach is one of three approaches that have been developed in the draft CP. The others are The Expanded IPSAS 19 approach and the Performance Obligation Approach.</p>
<ul style="list-style-type: none"> Mr. Stanford also suggested that a further option is to develop a separate standard and test it against IPSAS 23. 	<p>Adoption of the Reverse IPSAS 23 Approach could be through an amended IPSAS 23 with the scope modified to include non-exchange expenses or a separate standard.</p> <p>Any amended or new standard would have to be exposed for comment as an Exposure Draft.</p>
<ul style="list-style-type: none"> Ms. Sanderson highlighted the complexity of the agenda papers and emphasized the need for care in drafting and structuring the CP in order to make sure that it is accessible for readers. The relationship between public sector for-profit entities and private sector entities in developing proposals on the performance obligation approach should also be considered. 	<p>These comments were mirrored at the subsequent IPSASB meeting. They were largely due to the fact that draft chapters were interspersed with issue papers and that there was not a coherent integrated document.</p> <p>The IPSASB reviewed and modified the structure at the subsequent meeting largely due to the comments of a number of CAG members.</p>
<p><i>Issue 2: Definition of a non-exchange transaction</i></p> <p><i>How can the definitions of exchange transactions and non-exchange transactions be improved and made more useful for stakeholders?</i></p>	
<ul style="list-style-type: none"> Mr. Stanford indicated that one driver for using the performance obligation approach is the difficulty of implementing the distinction between exchange and non-exchange transactions. He asked whether it is feasible to modify the definitions and, if so how? He also asked for any experiences of CAG members with the definition of a non-exchange transaction. 	<p>IPSASB has not developed revised definitions of exchange and non-exchange transactions.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Ms. Cearns asked for an expansion of the point that preparers had difficulty identifying an onerous contract. Mr. Stanford said that the difficulty appeared to be determining a point at which a contract became onerous. Mr. Mason clarified that the issue is whether a contract or binding arrangement is onerous, or, rather, whether it contains two components: an exchange component and a non-exchange component. Ms. Cearns suggested that, in making such an assessment commercial substance should be considered. 	<p>Not specifically addressed in the Consultation Paper.</p>
<ul style="list-style-type: none"> Mr. Müller-Marqués Berger asked whether the exchange/non-exchange distinction works well. The CAG members did not provide specific examples of real-world problems they had encountered in deciding whether transactions fell into one or the other category (i.e. exchange or non-exchange). 	<p>IPSASB has formed a view that the exchange/non-exchange distinction is not fundamentally flawed. However, there are undoubtedly ambiguities in its implementation. It is also doubtful whether determining that a transaction is exchange or non-exchange is of interest to the users of financial statements.</p>
<ul style="list-style-type: none"> Returning to the classification of transactions, Mr. Boutin said that he had tried to reconcile the ABC categories and questioned whether this categorization is an over-simplification. The categorization requires quite a detailed thought process in order to determine the accounting treatment he suggested that transactions might be refined into two categories. There might be an alternative classification approach, although he had not fully worked out what this might be way to classify transactions, although haven't worked out what these would be; the analysis on the whiteboard table could be a way to improve this simplified distinction. 	<p>IPSASB has acknowledged that the classification simplifies the real world. In practice, there is likely to be a spectrum of transactions—at one end transactions with no performance obligations, at the other end transactions with identifiable and enforceable performance obligations. Many transactions lying somewhere in between. Despite these limitations the categories are considered useful in facilitating an evaluation of the extent to which a performance obligation approach can be applied to public sector transactions.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Ms. Colignon commented that the analysis focused on goods and services. While it is interesting to segregate the different transactions, the exchange/non-exchange distinction seemed to re-emerge. Mr. Stanford said that he interpreted this point as that IPSASB should retain a discussion of the performance obligation approach but as a way to determine whether a present obligation has arisen. 	<p>If a performance obligation approach is adopted the identification of specific performance obligations would be the main determinant of accounting requirements. However, there would be a large number of transactions that would be dealt with in a revised IPSAS 23 or a standard incorporating IPSAS 23 principles.</p>
<ul style="list-style-type: none"> Ms. Colignon asked whether the performance obligation approach is in opposition to exchange/non-exchange approach. Mr. Stanford said that he thought that there had already been some discussion of this in the earlier session on revenue. It can be oversimplistic to set up the two approaches as opposites. 	<p>It is probably best seen as an alternative approach, rather than starkly in opposition to the exchange/non-exchange approach. Preparers have questioned whether the separate presentation of information about exchange and non-exchange transactions provides useful information; there is anecdotal evidence that the distinction between exchange and non-exchange transactions is of limited interest to users.</p>
<ul style="list-style-type: none"> Ms. Cearns suggested that analysis would help ascertain whether there is a group of transactions that is really non-exchange to distinguish from those that do have a performance obligation. Carrying out such a detailed analysis and developing a comprehensive approach might lead to a conclusion that it is too complex and not really helpful. 	<p>While not endorsing it the IPSASB has acknowledged a view that many non-commercial, non-contractual arrangements might be considered exchange in nature because they are undertaken in furtherance of an entity's objectives.</p> <p>It is likely that not all transactions with performance obligations could be addressed under a performance obligation approach; some performance obligations may be insufficiently specific.</p>
<ul style="list-style-type: none"> Mr. Stanford stressed that the IPSASB wanted to publish a Consultation Paper that is understandable. 	<p>The draft CP has been restructured in order to make it more accessible.</p>

Representatives' and Observers' Comments	IPSASB Response
<ul style="list-style-type: none"> Mr. Müller-Marqués Berger turned attention to the structure of the CP. Referring to an illustration (noted in Table One above) he noted that the CP was currently structured in what he termed 'a columnar way'—that is the discussion of each approach included both revenue and non-exchange transactions. He suggested that a better approach might be to adopt a 'row-based structure', in which firstly revenue transactions and then non-exchange expense transactions would be considered from the perspective of both approaches. He encouraged the IPSASB to consider whether a different structure might be more helpful to readers. 	<p>The structure proposed by Mr. Müller-Marqués Berger has been adopted.</p>
<ul style="list-style-type: none"> Mr. Carruthers expressed a view that the CP should start by firstly considering Category C transactions—where there is clearly no performance obligation—before considering the other categories, i.e. start at the right hand side of the whiteboard and move to the left. 	<p>In draft Chapter 2 on the categorization of transactions, transactions without performance obligations have been re-termed Category A transactions and are discussed first.</p>

Matters for CAG Consideration

- Representatives and Observers are asked to note the Report Back above.

Appendix

Project: Revenue and Non-exchange Expenses

Summary

	CAG Meeting	IPSASB Meeting
Discussion related to Development of the Consultation Paper	June 2016	June 2016
Discussion related to Development of the Consultation Paper	-	September 2016
Discussion related to Development of the Consultation Paper	December 2016 (Report Back)	December 2016

CAG Discussions: Detailed References

<p>IPSASB Staff Discussion with the CAG - Development of the Consultation Paper</p>	<p><u>June 2016 CAG Discussions</u> See IPSASB CAG meeting material: http://www.ipsasb.org/system/files/meetings/files/CAG-Agenda-Item-6-Revenue-Combined.pdf http://www.ipsasb.org/system/files/meetings/files/CAG-Agenda-Item-7-Non-Exchange-Expenses-Combined.pdf</p>
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