

**Meeting:** IPSASB Consultative Advisory Group

**Meeting Location:** Virtual Meeting

**Meeting Date:** June 14, 2021

## Agenda Item

# 4

For:

Approval

Discussion

Information

### REVENUE AND TRANSFER EXPENSES

<b>Project summary</b>	<p>The aim of the Revenue project is to develop one or more standards that provide recognition and measurement requirements for revenue transactions.</p> <p>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.</p>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Discussion Items</b>	<a href="#">Considering CAG Member Advice in the Revenue Project</a>	<a href="#">4.1</a>
	<a href="#">Assessing Constituent Comments from the Transfer Provider Perspective</a>	<a href="#">4.2</a>
<b>Other supporting items</b>	<a href="#">Appendix A: IPSASB Due Process Checklist (condensed to include portions relevant to the CAG)</a>	<a href="#">4.3</a>
	<a href="#">Appendix B: Links to Other Documents</a>	<a href="#">4.4</a>

**Considering CAG Member Advice in the Revenue Project**

**Background**

1. The IPSASB issued Exposure Draft (ED) 70, *Revenue with Performance Obligations*, ED 71, *Revenue without Performance Obligations*, and ED 72, *Transfer Expenses* in February 2020. Overall, the IPSASB received over 200 responses across the three EDs.<sup>1</sup> 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.
2. Staff identified and presented a summary of overarching themes to the CAG in December 2020 ([Agenda Item 3.1](#)). The IPSASB received useful advice from CAG members on two issues:

Issue	Specific CAG member advice
<p><b>Issue 1:</b> What is the appropriate flow and structure of the standards from a public sector perspective?</p>	<p><b>General preference for Option 1</b></p> <p>Of the three options presented, CAG members generally favored Option 1, reordering guidance to begin with ED 71 principles and follow with ED 70 principles. Members considered this Option would better reflect the prevalence of public sector revenue transactions. In substance, Option 1 proposes to continue with two separate revenue standards.</p> <p>A smaller number of CAG members favored Option 2, combining ED 70 and ED 71. These members preferred Option 2 because, in substance, it proposes a single revenue standard, which may improve usability and understandability. Option 3, to leave the standards as-is, was also considered but did not receive as much support as Options 1 and 2.</p>
<p><b>Issue 2:</b> How should the IPSASB determine the appropriate level of disclosures to meet user information needs?</p>	<p>CAG members generally supported staff’s proposal to further consider disclosure requirements based on the nature of the transactions. Specifically, revisions would be required to align ED 70 disclosures with IFRS 15, and to revise ED 71 and ED 72 disclosures to be more practical and applicable for the public sector. CAG members noted the importance of maintaining a principles-based approach.</p>

3. The CAG Chair and staff summarized and presented the advice on the two issues, along with the following key points from the December 2020 CAG member discussion, to the IPSASB for consideration:
  - (a) **Consider public sector perspective and user needs** – Presentation and order of guidance should reflect the prevalence of public sector transactions and address constituent concerns;
  - (b) **Distinguish different transactions** – Guidance should still clearly distinguish between transactions with and without performance obligations (i.e., reflect the differing nature and risks associated with the different types of revenue transactions);
  - (c) **Maintain consistency in principles** – Accounting principles should be consistent across the suite of standards; and
  - (d) **Ensure freestanding IPSAS** – Adjust and repeat guidance where necessary to ensure standards stand alone and improve usability (i.e., each standard can be read independently).

<sup>1</sup> The IPSASB received 73 comment letters for ED 70, 65 letters for ED 71, and 65 letters for ED 72.

Consider introductory guidance to help users understand the delineation and application of the standards.

4. This paper summarizes progress on the Revenue project since the December 2020 CAG meeting and emphasizes how CAG member advice has informed the IPSASB in its discussions.

**Board Progress in the Revenue Project**

5. The IPSASB began its review of responses to the revenue EDs in December 2020 ([Agenda Item 8](#)) and continued with detailed analysis of responses in March 2021 ([Agenda Item 5](#)). Their discussions focused on several key higher-level issues raised by constituents that impacts the resolution of other issues. The IPSASB considered CAG member advice and generally incorporated the advice into their decisions:

Revenue topic discussed by IPSASB	Relevant CAG member advice considered	IPSASB discussions and decisions
<b>Considering Guidance in the Context of IPSAS Users</b>	<ul style="list-style-type: none"> <li>• Consider public sector perspective and user needs</li> </ul>	<ul style="list-style-type: none"> <li>• Confirmed that the majority of public sector revenues are from non-exchange type transactions.</li> <li>• Revise the title(s) of the proposed revenue standard(s) to reflect the nature of revenue transactions in the public sector.</li> <li>• Consider adding introduction guidance to help users determine and apply the appropriate standard.</li> </ul>
<b>Options to present revenue guidance</b>	<ul style="list-style-type: none"> <li>• Preference for Option 1</li> <li>• Distinguish different transactions</li> <li>• Consider public sector perspective and user needs</li> <li>• Maintain consistency in principles</li> <li>• Ensure freestanding IPSAS</li> </ul>	<ul style="list-style-type: none"> <li>• Reorder revenue guidance to begin with principles related to non-exchange type transactions.</li> <li>• Proceed with Option 1 for the time being, with the standard based on ED 71 first, as it better:                             <ul style="list-style-type: none"> <li>○ Reflects the prevalence of revenues in the public sector;</li> <li>○ Distinguishes the different types of revenue transactions; and</li> <li>○ Meets user needs as it is generally less complex and lengthy.</li> </ul> </li> <li>• Duplicate guidance where necessary to ensure the two revenue IPSAS are freestanding.</li> </ul>
<b>Binding arrangements</b>	<ul style="list-style-type: none"> <li>• Consider public sector perspective and user needs</li> </ul>	<ul style="list-style-type: none"> <li>• Acknowledged and clarified that enforceability of a binding arrangement can arise from various mechanisms, and these mechanisms may vary by jurisdiction and unique terms and conditions in public sector arrangements. As such, an entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable.</li> </ul>
<b>Distinguishing revenue arising from performance obligations</b>	<ul style="list-style-type: none"> <li>• Distinguish different transactions</li> <li>• Consider public sector perspective and user needs</li> </ul>	<ul style="list-style-type: none"> <li>• Retain revenue arising from performance obligations as a separate type of revenue, which are a subset of present obligations.</li> <li>• Revenue arising from performance obligations likely represents a minority of public sector revenues.</li> </ul>

6. Progress and decisions made to date on Revenue have also contributed to the IPSASB's discussions on the Transfer Expenses project during its April 2021 check-in meeting.

7. The IPSASB also discussed several other revenue issues, including what gives rise to a liability in binding arrangements without performance obligations, and the allocation of transaction price when a binding arrangement includes components within the scope of both standards, and was able to make good progress on discussing and addressing these constituent comments.
8. The IPSASB intends to continue discussing issues raised by constituents in June 2021.

**Question for CAG Members:**

**Are there additional factors CAG members advise the IPSASB to consider as the Revenue project progresses?**

## **Assessing Constituent Comments from the Transfer Provider Perspective**

### **Background**

1. The Transfer Expense project was first approved as part of the IPSASB's 2015 Strategy and Work Plan. The project seeks to develop a new standard for transfer expenses that is consistent with the accounting for equivalent revenue transactions, which are being addressed in parallel.
2. Staff reviewed the 65 comment letters received in response to ED 72, *Transfer Expenses*, and presented a project plan to the IPSASB in April 2021 ([Agenda Item 1](#)). Staff noted:
  - (a) *Overall support for ED 72* – A majority of respondents agreed or partially agreed with the Specific Matters for Comment (SMCs). However, some respondents identified potential conceptual flaws that require further analysis;
  - (b) *Some of the issues raised relate to principles* – Some issues raised by constituents relate to principles, while other issues do not relate to principles (e.g., complexity and practicality of proposed guidance, or additional or revisions to proposed guidance). Based on discussions in April 2021, the IPSASB has decided to address principle-related issues first, before considering other issues; and
  - (c) *Need consistency in principles to address any conceptual flaws* – Some respondents highlighted potential conceptual issues related to specific components of the proposed accounting model. These comments indicated that consistency in accounting models in the proposed revenue and transfer expense standards did not achieve the objective of consistency in principles. The accounting model and underlying principles for transfer expense accounting should be further considered and revised accordingly.
3. The most significant issue raised in the context of ED 72 relates to the proposal to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations. Distinguishing between the categories of transfer expenses was an important feature of ED 72 because it drove different accounting results:
  - (a) A **transfer expense with performance obligations** is recognized when (or as) the transfer recipient satisfies a performance obligation by transferring a promised good or service to a third-party beneficiary.<sup>2</sup>
  - (b) A **transfer expense without performance obligations** is recognized at the earlier of when the transfer provider has an obligation to transfer resources, and when the transfer provider transfers the resources.<sup>3</sup>
4. The proposals in ED 72 required a transfer provider (i.e., the entity applying the proposed standard) to identify the present obligations and performance obligations from the perspective of the transfer recipient. This paper provides further background on the proposed guidance in ED 72 and outlines key constituent comments regarding this issue and seeks CAG member advice to assist the IPSASB in addressing issued raised by constituents.

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<sup>2</sup> ED 72 paragraphs 13-89 provide the PSPOA accounting model for transfer expenses with performance obligations.

<sup>3</sup> ED 72 paragraphs 91-119 provide the accounting model for transfer expenses without performance obligations.

**Proposed Guidance in ED 72**

5. ED 72 introduces accounting principles by first requiring the transfer provider to identify the type of transfer expense in the transaction as follows:

Transfer expense	Proposed guidance in ED 72
Transfer expenses <b>with</b> performance obligations	<p><i>Excerpt from ED 72 paragraph 10 (emphasis added):</i></p> <p>“A transfer provider may incur transfer expenses in accordance with a binding arrangement it has entered into with a transfer recipient, which <u>requires the transfer recipient to provide goods or services to a third-party beneficiary.</u>” (emphasis added)</p>
Transfer expenses <b>without</b> performance obligations	<p><i>Excerpt from ED 72 paragraph 90 (emphasis added):</i></p> <p>“Transfer expenses without performance obligations may arise:</p> <p>a. “Where the transfer provider incurs expenses in accordance with a binding arrangement it has entered into with a transfer recipient, and the binding arrangement <u>imposes present obligations other than performance obligations on the transfer recipient;</u> or</p> <p>b. “Where the transfer provider incurs expenses without the existence of a binding arrangement.”</p>

6. As noted in paragraph 3, the transfer provider’s identification of whether the transfer recipient has a performance obligation determines which accounting model to apply. If the transfer provider determines that (1) it has entered a binding arrangement with a transfer recipient (that potentially includes other parties), and (2) the transfer recipient in the binding arrangement has a performance obligation, then the transfer provider must apply the Public Sector Performance Obligation Approach (PSPOA). If the transfer provider determines that the transfer recipient in the transaction does not have a performance obligation arising from a binding arrangement, then it would apply the other accounting model.
7. Thus, the proposed guidance in ED 72 puts significant emphasis on the transfer provider’s correct analysis and identification of whether the counterparty in a transfer expense transaction (i.e., the transfer recipient) has a performance obligation arising from a binding arrangement.

**Feedback on the Proposal to Distinguish Transfer Expenses with Performance Obligations**

8. SMC 2 of ED 72 asked respondents whether they agree with the proposal to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations. This would mirror the distinction for revenue transactions proposed in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. Other SMCs also ask respondents for feedback on the proposed accounting models (recognition and measurement) based on the identification of whether the transfer expense is with or without performance obligations.
9. A little over half of the respondents (58%) agreed with the proposal, generally on the basis of maintaining consistency with the distinction for revenue in ED 70 and ED 71.
10. However, approximately 25% of respondents disagreed with the proposal to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations. These constituents noted the following reasons:

Issue	Implication for Transfer Provider
No economic difference from a transfer provider perspective	Some respondents considered the distinction irrelevant or artificial, as that there is no economic difference between the two types of transactions from the transfer provider perspective. One respondent further noted that the differentiation between delivery of distinct goods or services by the transfer recipient (i.e., performance obligation) and the use of transferred resources in a particular way (i.e., present obligation) is not relevant. <b>The distinction is thus not considered relevant for the transfer provider. Rather, the accounting guidance should assist the transfer provider in determining (1) whether it still has an unsatisfied obligation, and (2) whether they still retain control of an asset in cases where they’ve already begun satisfying the obligation.</b>
Not reflective of a transfer provider’s public sector transactions	Some respondents have concerns about distinguishing transfer expenses with performance obligations from those without performance obligations, arguing that the distinction and current proposed treatment of transactions without performance obligations (which comprise the vast majority of public sector transactions) does not reflect the economic reality of transfer expenses in the public sector. In cases where a transfer provider transfers resources in a transaction without performance obligations but still retains control of those resources, the guidance proposed in ED 72 would require immediate recognition as an expense, which would not appropriately reflect the transaction. <b>Thus, the distinction (which leads to separate accounting requirements of transfer expenses with and without performance obligations) may not faithfully represent the substance of the underlying transaction for the transfer provider.</b>
Application of potentially inconsistent accounting principles by transfer provider	Respondents that did not agree with the distinction generally acknowledged that “mirroring” the distinction from the proposed revenue standards (ED 70 and ED 71) is sensible, but noted that mirrored or symmetrical accounting models did not necessarily achieve consistency in accounting principles for equivalent transactions. These respondents generally did not believe that different accounting was warranted and emphasized that the potentially artificial, yet precise, distinction becomes critical to the correct application of accounting guidance. <b>The transfer expenses guidance as currently proposed in ED 72 may result the application of inconsistent principles by the transfer provider.</b>
Difficulty in practice without substantial benefits for transfer provider	Several respondents noted that the distinction between the two types of transfer expenses is complex, and difficult to accomplish in practice. Respondents noted that there is additional administrative burden and “over-complication” of what should be a simple accounting treatment, without providing useful or relevant information. In essence, the costs of the proposed accounting which may not justify the benefits. A few respondents also noted that this complexity and difficulty in practice exists from both the accounting and budgeting perspectives. <b>Thus, respondents that disagreed with the proposal noted that the difficulty in applying the guidance in practice would pose complexity and costs on the transfer provider that do not outweigh the benefits.</b>

**Implications of These Constituent Comments**

- As noted in paragraphs 3 and 6, the transfer provider’s correct analysis and identification of the transfer recipient’s stated obligations is integral to the correct application of proposed accounting guidance because the distinction determines the initial and subsequent recognition and measurement of the specific transfer expense transaction.

12. This “trickle impact” is evident in consistent concerns in responses to SMC 2 (summarized in paragraph 10) and also in constituent responses to other SMCs. Concerns on the distinction between transfer expenses with performance obligations and transfer expenses without performance obligations reasonably overlap with and are echoed in concerns regarding the ability to monitor the satisfaction of performance obligations, recognition and measurement of these transfer expenses, and the overall practicality of the PSPOA accounting model.
- (a) For example, constituents that disagreed with the proposal also disagreed with recognition proposals in ED 72 to:
- (i) Defer recognition of an expense where the transfer recipient has a performance obligation; but
  - (ii) Recognize an expense immediately where the transfer recipient does not have a performance obligation (irrespective of whether the transfer recipient has a present obligation).

**Considering the transfer provider perspective**

13. Considering these comments holistically, staff note that concerns raised by constituents that did not agree with distinguishing between transfer expenses with and without performance obligations are triggered by one specific element: **the guidance proposed in ED 72 required the transfer provider (i.e., the entity applying the proposed transfer expense standard) to consider the transaction from the *transfer recipient’s perspective*, rather than from the *transfer provider’s (the entity’s) own perspective*.**
14. Based on the responses above, switching the perspective from which the obligation is evaluated should address the concerns identified. Evaluating the transaction from the transfer provider perspective will assist in first determining whether retaining the distinction between transfer expenses with or without performance obligations *from a transfer provider perspective* is useful, before subsequently considering the implications on the recognition and measurement principles in the proposed accounting models and constituent comments in response to the other SMCs. This perspective would also help determine:
- (a) What is the transfer provider’s right in the binding arrangement;
  - (b) What is the transfer provider’s obligation in the binding arrangement;
  - (c) Whether the transfer provider retains control of an asset;
  - (d) How the accounting principles on recognition and measurement should reflect the transfer provider’s rights and obligations in the transfer expense transaction;
  - (e) Whether the transfer provider’s rights and obligations justify the continued use of different accounting treatments (i.e., retain the two accounting models) as was proposed in ED 72; and
  - (f) Whether proposed accounting principles for transfer expenses as a whole are consistent with principles for revenue, where appropriate.

**Questions for CAG Members:**

**In CAG Members' view, based on staff's summary highlighting key public interest concerns raised by constituents, does the proposed response address the concerns?**

**If not, why, and what other factors should the IPSASB consider?**

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

**Project:** Revenue and Transfer Expenses

#	Due Process Requirement	Yes/No	Comments
<b>A. Project Brief</b>			
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 <a href="#">Agenda Item 10</a> ).
A2.	The IPSASB has approved the project in a public meeting.	Yes	See the minutes of the <a href="#">March 2015 IPSASB meeting (section 10)</a> .
A3.	The IPSASB CAG has been consulted on the project brief.	N/A	This step was not in effect for this project.
<b>B. Development of Proposed International Standard</b>			
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 <a href="#">Consultation Paper, Accounting for Revenue and Non-Exchange Expenses in August 2017</a> .
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	<a href="#">Agenda Items 5 and 7 from June 2018</a> , <a href="#">Agenda Item 7 from December 2018</a> , and <a href="#">Agenda Item 5 from the June 2019</a> meeting sought the CAG's views on the significant issues to be address in the development of the exposure drafts.
<b>D. Consideration of Respondents' Comments on an Exposure Draft</b>			
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	Yes	The IPSASB issued <a href="#">Exposure Draft 70, Revenue with Performance Obligations</a> , <a href="#">Exposure Draft 71, Revenue without Performance Obligations</a> , and <a href="#">Exposure Draft 72, Transfer Expenses</a> .

#	Due Process Requirement	Yes/No	Comments
			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 by the IPSASB began in December 2020 and is ongoing throughout 2021.

## **Appendix B: 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](#)