Agenda Item 5: Revenue and Transfer Expenses

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Agenda Item 5 – Revenue and Transfer Expenses

Project management – Stock take

Road map – progress to date and future meeting plans
Board decisions – previous decisions taken and key future issues
Board instructions – satisfied with actions taken
Other issues?
Process Followed in Addressing In-Period Review Comments

Summary of In-Period Review Issues

Transfer Revenue with Performance Obligations and Transfer Revenue

Disclosures

Definition of Binding Arrangements

Examples / Editorials
Agenda Item 5 – Revenue and Transfer Expenses

Process Followed in Addressing In-Period Review Comments (Agenda Item 5.2.1)

Reviewed Comments
• Received 12 Comment Submission Templates
• Over 300 comments

Developed Issues Papers

Identified Themes
• 10 Themes Identified (Agenda item 5.2.2)

Amended ED 70, ED 71 and ED 72
# Agenda Item 5 – Revenue and Transfer Expenses

## Summary of In-Period Review Issues (Agenda Item 5.2.2)

<table>
<thead>
<tr>
<th>#</th>
<th>Theme</th>
<th>ED Impacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Transfer Revenue / Transfer Expense</td>
<td>Cross Cutting</td>
</tr>
<tr>
<td>02</td>
<td>Disclosures</td>
<td>Cross Cutting</td>
</tr>
<tr>
<td>03</td>
<td>Binding Arrangement</td>
<td>Cross Cutting</td>
</tr>
<tr>
<td>04</td>
<td>Examples / Editorials (Including BCs)</td>
<td>Cross Cutting</td>
</tr>
<tr>
<td>05</td>
<td>Structure</td>
<td>ED 71 / ED 72</td>
</tr>
<tr>
<td>06</td>
<td>Measurement</td>
<td>ED 71</td>
</tr>
<tr>
<td>07</td>
<td>Capital Transfers</td>
<td>ED 71</td>
</tr>
<tr>
<td>08</td>
<td>Scope</td>
<td>ED 72</td>
</tr>
<tr>
<td>09</td>
<td>PSPOA Assessment</td>
<td>ED 72</td>
</tr>
<tr>
<td>10</td>
<td>Other Issues</td>
<td>ED 71</td>
</tr>
</tbody>
</table>
Issue

• Feedback indicated it is critical for EDs to highlight mirroring relationship between revenue and transfer expenses
  • Respondent noted that certain transactions as depicted in Diagram A should be defined and their relationship to each other should be highlighted
  • Respondent also questioned whether taxes should be included in transfers
  • Nature of taxation is fundamentally different from the transactions commonly thought of as transfers, such as capital and operating grants
Does the Purchaser Receive Goods/Services?

If no, does the Purchaser have a Performance Obligation on Recipient?

- Yes
  - Transfer Expenses with Performance Obligations (PSPOA)
  - Transfer Expenses without Performance Obligations

- No
  - IFRS 15 Aligned
  - (e.g.) Financial Support
  - Transfer Revenue with Performance Obligations
  - Transfer Revenue without Performance Obligations

ED 70: IFRS 15 Aligned
ED 71: Transfer Revenue with Performance Obligations
ED 72: Transfer Revenue without Performance Obligations

PSPOA: Binding arrangement and performance obligation
      Binding arrangement but no performance obligation
      No binding arrangement or performance obligation
Further Consideration

• “Transfer Revenue” and “Transfer Expense” are not always recognized as revenue or expenses in the financial statements

• Using the words “revenue” and “expense” to describe items that are not recognized as revenue or expense may cause confusion

• Staff propose to use the terms “Transfer Receipts” and “Transfer Expenditures” and only use “transfer revenue” and “transfer expense” once these items are recognized as revenue and expenses in the statement of financial performance
Recommendation

• Replace definition of “Transfer” in ED 71 with “Transfer Revenue”
• Modify definition of “Transfer Expense” to exclude taxes but leave accounting for taxes in scope of ED 72
• Define term “Transfer Revenue with Performance Obligations” as revenue earned from the provision of goods or services to third-party beneficiaries
  • Include paragraph in AG to explain relationship between Transfer Revenue with Performance Obligations and Transfer Revenue
• Staff tested the above definitions in Diagram B
National Government is the Transfer Provider:
- Payment meets the definition of transfer expense (i.e., paying resources and getting nothing in return)
- Applies ED72

State Government is the “Entity” in ED70:
- Receives consideration in exchange for the provision of goods or services
- Consideration received is not “transfer revenue” since entity is required to provide vaccines to a third-party beneficiary
- Provision of vaccines is not “transfer expense,” as it was done in exchange for consideration

Children are the Transfer Recipient (if they apply IPSAS):
- Receipt of goods/services without paying anything in return
- Applies ED71

Staff proposes to define the revenue recognized by the State Government as “Transfer Revenue with Performance Obligations”

Staff proposes to define the transaction recognized by the children (if they applied IPSAS) as “Transfer Revenue”
Decision Required

• Does the IPSASB agree with the Staff’s recommendations?
Disclosures (Agenda Item 5.2.4) 1/2

Issue

• Inconsistent disclosure requirements across ED 70, ED 71 and ED 72

Options

• Option 1 - Import disclosures from ED 70 in to ED 71 and ED 72
• Option 2 – Delete disclosures from ED 70 and ED 72 in line with ED 71
• Option 3 – Maintain disclosures and ask an SMC

Recommendation

• Option 3 – Maintain current disclosures and ask an SMC
Decision required

- Does the IPSASB agree to:
  - Adopt Option 3 for disclosures across ED 70, ED 71 and ED 72; and
  - The proposed SMC on disclosures?
Issue 1

- Respondent noted that definition is unclear and in their view:
  - Does not imply both rights and obligations are conferred to both parties
  - Does not indicate rights and obligations need to be equal
  - Due to unclear definition, respondent is unclear why taxes, fines, bequests and donations are not binding arrangements

“A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement. A contract is a type of binding arrangement.”
Recommendation 1

- Current definition is sufficiently clear:
  - Refers to enforceable “rights and obligations”, not “rights or obligations”
  - “Parties to the arrangement” does not specify only one party or another
  - Not meant to convey equal rights and obligations – often they are not equal
  - AG14 of ED 70 already explains that both parties can enforce rights and obligations
  - Definition was already reviewed and approved by the IPSASB in 2018
  - Staff noted that it would be helpful to specify that this definition of a binding arrangement is specific to ED 70 – 72
Issue 2

- ED 70 and ED 71 imply that a transaction that is not a binding arrangement is automatically unenforceable.
- Some transactions in ED 71 may be enforceable, but they do not arise from binding arrangements (e.g. taxes, fines, bequests and certain donations).
Recommendation 2

- Clarify the definition of Binding Arrangement in ED 70 only applies to ED 70, 71 and 72
- Add application guidance to ED 71 as follows:
  - “Some ED 71 transactions may be enforceable, but only create rights or obligations for each party. These transactions do not satisfy the requirements of a binding arrangement because of the lack of two-way enforceability (for example, taxes).”
- Soften the use of the term "unenforceable" for certain transactions within the scope of ED 71
Decision required

• Does the IPSASB agree with Staff’s recommended changes?
Recommendation

• All editorial and non-authoritative material, except for Basis for Conclusions, should be actioned and reviewed through the Editorial Review Process.
Decision Required

- Does the IPSASB agree with the recommended process