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International Public Sector Accounting Standards Board  
International Federation of Accountants  
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CANADA

Submitted to: [www.ifac.org](http://www.ifac.org)

### **Submission on Exposure Drafts ED 70, ED 71 and ED 72**

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board's (IPSASB's) Exposure Drafts ED 70 *Revenue with performance obligations*, ED 71 *Revenue without performance obligations* and ED 72 *Transfer expenses*.

The Auditor-General is responsible for auditing all of New Zealand's public entities. Public entities in New Zealand include public benefit entities and for-profit entities. We provide the New Zealand Parliament and the public with independent assurance that public entities are operating and accounting for their performance as intended.

Overall, we support the proposal to have two revenue standards, one for revenue with performance obligations and the other for revenue without performance obligations, and a proposed standard on transfer expenses. We commend the IPSASB's efforts to address revenue and transfer expenses issues that are specific to the public sector and address application issues raised by constituents in relation to the existing requirements.

### **General comment about the proposed standards**

We appreciate that the subject matter of the proposed standards are interrelated and that the IPSASB is using IFRS 15 *Revenue from Contracts with Customers* as a base for the proposed standards. However, like IFRS 15, the exposure drafts are lengthy and complicated. We question whether the proposed standards need to contain all the detail from IFRS 15. Moreover, the disclosure requirements are significantly greater across the three exposure drafts compared to what is currently required. We suggest the IPSASB re-considers the disclosure requirements to determine if all of them are necessary for the types of transactions typically undertaken by public sector entities that do not have a profit objective<sup>1</sup>.

The exposure drafts use terminology which, while technically correct, are new and which will be unfamiliar to many preparers. For example:

- ED 71 introduces the terms "eligible expenditure" and "specified activities" as examples of present obligations in binding arrangements without performance obligations. However, in many of the examples intended to illustrate these terms, the difference between the terms are not clear; and

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<sup>1</sup> References to public sector entities in this submission refer to public sector entities that do not have a profit objective.

- Most expenses covered by ED 72 will take the form of grants. The use of the term “transfer expenses” is not a term that will be familiar to most preparers.

There are a number of cross-references between the exposure drafts with little context for the cross-references, making it hard to understand the proposed requirements. For example, paragraph 90 of ED 72 refers to guidance in ED 71 for “present obligations other than performance obligations” without explaining the relevance of the transfer recipient’s present obligations to the transfer provider in the context of ED 72. Where cross-references are used in a proposed standard, we recommend that they be clearly explained in the context of the proposed standard.

We consider that the proposed standards need to be modest in length and use language that users of the standards can understand. We think simplicity of language, clarity of application guidance and illustrative examples, and more contextual information in the proposed standards are needed to help preparers to understand and use the proposed standards. We recommend that the IPSASB considers how the proposed standards can be structured to make them easier to read and apply, and how the application guidance and examples can better clarify the principles and requirements of the proposed standards.

#### **EDs and their interaction with IPSAS 19 *Provisions, contingent liabilities and contingent assets***

The EDs are not very clear about when entities should apply the requirements of the respective proposed standard and when they should apply IPSAS 19. We recommend that the IPSASB:

- Reconsiders the wording of the scope exclusions in each proposed standard so that it is clear whether the whole of IPSAS 19 is excluded or only parts of it. If parts of it, then each proposed standard needs to be specific about which parts will continue to apply for that particular proposed standard, what they apply to and how they should be applied;
- Considers adding a short commentary within each proposed standard explaining when and why IPSAS 19 (or the relevant parts of it) applies; and
- Includes, in the Basis for Conclusions, the IPSASB’s views of the impact of any scope exclusion and the reasons for the exclusions.

We set out our specific comments on ED 70 in Appendix 1, ED 71 in Appendix 2 and ED 72 in Appendix 3.

If you have any questions about our submission, please contact Brett Story, Associate Director Technical, at [brett.story@auditnz.parliament.nz](mailto:brett.story@auditnz.parliament.nz) or Lay Wee Ng, Technical Specialist, at [laywee.ng@oag.parliament.nz](mailto:laywee.ng@oag.parliament.nz).

Yours sincerely



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## **APPENDIX 1: ED 70 REVENUE WITH PERFORMANCE OBLIGATIONS**

### **Specific Matter for Comment 1:**

*This Exposure Draft is based on IFRS 15, Revenue from Contracts with Customers. Because in some jurisdictions public sector entities may not have the power to enter into legal contracts, the IPSASB decided that the scope of this Exposure Draft would be based around binding arrangements. Binding arrangements have been defined as conferring both enforceable rights and obligations on both parties to the arrangement.*

*Do you agree that the scope of this Exposure Draft is clear? If not, what changes to the scope of the Exposure Draft or the definition of binding arrangements would you make?*

Subject to our General comment about the proposed standards in the cover letter, we agree that accounting for revenue with performance obligations in the proposed IPSAS should align with IFRS 15 unless there are public sector-specific differences in relation to revenue items. Alignment of the core requirements between IFRS 15 and the proposed IPSAS may be helpful in avoiding any mixed group accounting issues (i.e. a public sector group that includes both entities with and without a profit objective).

We also agree that it is appropriate that the IPSASB addresses public sector-specific issues in the proposed standard by:

- Widening the scope to cover binding arrangements that might not be contracts; and
- Addressing the recognition of revenue from agreements to deliver goods and services to a third party.

In relation to our comment in our cover letter on the EDs and their interaction with IPSAS 19, we note that the scope of ED 70 states that the ED does not apply to:

“Rights or obligations arising from binding arrangements within the scope of, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets...*” (paragraph 3(e)).

However, in the consequential amendments to paragraph 13 of IPSAS 19 in ED 70, it states:

“13. Where another IPSAS deals with a specific type of provision, contingent liability, or contingent asset, an entity applies that standard instead of this Standard. For example, certain types of provisions are also addressed in Standards on: ...

(c) Revenue from binding arrangements with purchasers (see [draft] IPSAS [X] (ED 70), *Revenue with Performance Obligations*). However, as [draft] IPSAS [X] (ED 70) contains no specific requirements to address binding arrangements with purchasers that are, or have become, onerous, this [draft] Standard applies to such cases.” (underlining original)

The wording of the scope exclusion in ED 70 seems inconsistent with the proposed consequential amendment to IPSAS 19 which states that IPSAS 19 will continue to apply to onerous contracts. If IPSAS 19 is intended to apply in part under certain circumstances under the proposed standard, it is not useful for the scope to imply that all rights and obligations arising from binding arrangements within IPSAS 19 are excluded.

### **Specific Matter for Comment 2:**

*This Exposure Draft has been developed along with [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations, and [draft] IPSAS [X] (ED 72), Transfer Expenses, because there is an interaction between them. Although there is an interaction between the three Exposure Drafts, the IPSASB decided that even though ED 72 defines transfer expense, ED 70 did not need to define “transfer revenue” or “transfer revenue with performance obligations” to clarify the mirroring*

*relationship between the exposure drafts. The rationale for this decision is set out in paragraphs BC20–BC22.*

*Do you agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”? If not, why not?*

We agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations” as the nature of these transactions are explained in the scope paragraphs and it is unnecessary to introduce further complexity through trying to define the terms.

We also note that entities can disaggregate disclosures and show a category for revenue earned from providing goods and services to third party beneficiaries.

**Specific Matter for Comment 3:**

*Because the IPSASB decided to develop two revenue standards—this Exposure Draft on revenue with performance obligations and ED 71 on revenue without performance obligations—the IPSASB decided to provide guidance about accounting for transactions with components relating to both exposure drafts. The application guidance is set out in paragraphs AG69 and AG70.*

*Do you agree with the application guidance? If not, why not?*

We agree with the application guidance in AG69 and AG70 on accounting for transactions with components relating to both the proposed standards.

**Specific Matter for Comment 4:**

*The IPSASB decided that this Exposure Draft should include the disclosure requirements that were in IFRS 15. However, the IPSASB acknowledged that those requirements are greater than existing revenue standards.*

*Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed? If not, why not?*

We agree that the disclosure requirements should be aligned with those in IFRS 15 if they are also relevant to public sector entities. This will ensure that the disclosure requirements for revenue with performance obligations in the public benefit entity sector are similar to the disclosure requirements for for-profit public sector entities that apply IFRS 15. This may be helpful in addressing any mixed group disclosure issues.

However, we recommend that the IPSASB considers whether all the proposed disclosures are necessary and/or relevant in the public sector context (also see our General comment about the proposed standards in the cover letter).

**Specific Matter for Comment 5:**

*In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47.*

*Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions? If not, why not?*

We agree that the disclosure requirement in paragraph 120 for the disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions is useful information in circumstances where the probability of collection of the consideration from the purchaser is in question.

**Other Comment**

We note that Illustrative Example 5 appears to illustrate the disposal of plant and equipment rather than revenue. The circumstances illustrated would, at some point, require the entity to recognise a gain or loss on disposal of the asset. We recommend that the IPSASB reconsiders the example.

## **APPENDIX 2: ED 71 REVENUE WITHOUT PERFORMANCE OBLIGATIONS**

### **Specific Matter for Comment 1: (Paragraphs 14-21)**

*The ED proposes that a present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. The IPSASB decided that to help ascertain whether a transfer recipient has a present obligation, consideration is given to whether the transfer recipient has an obligation to perform a specified activity or incur eligible expenditure.*

*Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, Revenue without Performance Obligations, a specified activity and eligible expenditure give rise to present obligations? Are there other examples of present obligations that would be useful to include in the [draft] Standard?*

We support the idea that binding arrangements can have present obligations that are not performance obligations. We also support the guidance to help preparers determine whether they have present obligations to enable entities to appropriately account for revenue under different circumstances. In general, we support the IPSASB's proposal that, for the purposes of the proposed standard, *Revenue without Performance Obligations*, a specified activity and eligible expenditure give rise to present obligations.

However, it is not always clear to us from ED 71 when a transaction gives rise to a present obligation for the entity to incur eligible expenditure and when the transaction is for the entity's normal operating costs/general funding. We recommend that the proposed standard provides application guidance and illustrative examples that clearly differentiate between a transaction that imposes a present obligation for the entity to incur eligible expenditure and a transaction that is intended for the entity's normal operating costs/general funding.

It is common for public sector entities to receive multi-year grants/funding. We note that the exposure draft does not include any application guidance on how to account for multi-year grants/funding that are received. We recommend that application guidance be provided on when assets and revenue should be recognised in transactions that involve multi-year grants/funding, long-term contracts and where funding is based on time periods. We also suggest the inclusion of illustrative examples for multi-year grants, including where there is a mismatch of the balance date(s) to the funding.

We note that there are a number of illustrative examples that are intended to illustrate present obligations in binding arrangements. However, the examples are not always clear on whether the illustrated arrangement related to eligible expenditure or to a specified activity, for instance, in Illustrative Examples 11, 13 and 19. We recommend that the illustrative examples better clarify the distinction between the two types of present obligations, and be more specific about whether they are illustrating an eligible expenditure or a specified activity. If a clear distinction cannot be made between the two, we recommend the IPSASB considers whether eligible expenditure and specified activity could be combined in some way that would make the proposed standard easier to apply.

### **Specific Matter for Comment 2: (Paragraph 31)**

*The flowchart that follows paragraph 31 of this [draft] Standard illustrates the process a transfer recipient undertakes to determine whether revenue arises and, if so, the relevant paragraphs to apply for such revenue recognition. Do you agree that the flowchart clearly illustrates the process? If not, what clarification is necessary?*

We agree that the flowchart is clear and useful as an overall schema of the process a transfer recipient undertakes to determine whether revenue arises and the relevant paragraphs to apply for such revenue recognition.

### **Specific Matter for Comment 3: (Paragraph 57-58)**

*The IPSASB decided that a transfer recipient recognizes revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation.*

*Do you agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, what further guidance is necessary to enhance clarity of the principle?*

Subject to our comment on SMC 1, we agree that there is sufficient guidance to determine when a present obligation is satisfied (point in time or over time) and when revenue should be recognized. However, we note that paragraph 57 only states that:

“A transfer recipient shall recognize revenue without performance obligations when (or as) the transfer recipient satisfies the present obligation. A present obligation is satisfied when (or as) the transfer recipient **undertakes the specified activities** and has no further enforceable duties or acts to perform.” [emphasis added]

However, as present obligations under the proposed standard may be either to undertake specified activities or to incur eligible expenditure, we suggest that a present obligation is also satisfied when (or as) the transfer recipient incurs eligible expenditure. We suggest a rewording of paragraph 57 to also refer to “incurs eligible expenditure”.

**Specific Matter for Comment 4: (Paragraphs 80-81)**

*The IPSASB decided that the objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the arrangement so that it depicts the amount to which the transfer recipient expects to be entitled in satisfying the present obligation. The amount of revenue recognized is a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.*

*Do you agree sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations? If not, what further guidance is necessary to enhance clarity of the principle?*

Subject to our comment on SMC 1, we agree that there is sufficient guidance to identify and determine how to allocate the transaction price between different present obligations.

However, we note that the second sentence of paragraph 81 which states “The **amount of revenue recognized** is a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied” [emphasis added] is about the recognition of revenue, rather than about allocating the transaction price. We suggest that the sentence be reworded to explain the allocation of the transaction price.

**Specific Matter for Comment 5: (Paragraphs 84-85)**

*Do you agree with the IPSASB’s proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments? If not, how do you propose receivables be accounted for?*

We are pleased that the IPSASB has proposals to address the gap in standards for the accounting of non-contractual receivables. We generally agree with the proposal that receivables within the scope of the proposed standard should be subsequently measured in accordance with the requirements of IPSAS 41 at amortised cost or at fair value through surplus or deficit. We also agree that if a class of non-contractual receivables meets the necessary criteria in IPSAS 41 for amortised cost, that class should be measured at amortised cost.

However, we consider that it may be difficult to determine whether statutory receivables meet the “solely payments of principal and interest” (SPPI) test in IPSAS 41, for example, taxes and fines. These statutory receivables are not intended to be borrowing instruments and, therefore, do not have the normal features of a debt instrument. For example, substantial penalties can be charged on overdue amounts.

Additionally, if the SPPI test was met, the application of amortised cost method is complex, for example, having to track the receivables, determining the effective interest rate and/or determining their impairment under the expected credit loss model (where necessary).

We consider that it may be problematic to interpret, and apply, amortised cost to such statutory receivables. As such, we recommend that the proposed standard provides more detailed application guidance (and/or illustrative examples) in assessing whether statutory receivables meet the SPPI test and how amortised cost might apply to statutory receivables that pass the SPPI test.

**Specific Matter for Comment 6: (Paragraphs 126-154)**

*The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.*

*Do you agree the disclosure requirements in this [draft] Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations? In particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?*

In general, we agree the disclosure requirements provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations (also see our General comment about the proposed standards in the cover letter).

However, paragraph 133 of ED 71 states that:

“Transfer recipients that do not recognize service in-kind on the face of the general purpose financial statements are **strongly encouraged** to disclose qualitative information about the nature and type of major classes of services in-kind received, **particularly if those services in-kind received are integral to the operations of the transfer recipient**. The extent to which a transfer recipient is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.” [emphasis added]

We recommend that qualitative disclosures should be required (not just encouraged) to be disclosed for those unrecognised services in-kind received that are integral to the operations of the transfer recipient.

Paragraph 132(a) of ED 71 has an explicit requirement to disclose the accounting policy for the recognition of revenue from transactions without performance obligations. We note that, in general, individual standards are inconsistent with regard to the requirement to disclose specific accounting policies, for example, there is no explicit requirement to disclose an accounting policy in either ED 70 or ED 72. We presume this is because the requirement to disclose specific accounting policies is stated in PBE IPSAS 1 (paragraphs 127 and 132-139). We suggest the IPSASB considers how this requirement can be made consistent across the standards.

**Specific Matter for Comment 7: (Paragraphs N/A)**

*Although much of the material in this [draft] Standard has been taken from IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers), the IPSASB decided that the ED should establish broad principles for the recognition of revenue from transactions without performance obligations, and provide guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. The way in which these broad principles and guidance have been set out in the ED are consistent with that of [draft] IPSAS [X] (ED 72), Transfer Expenses.*

*Do you agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out? If not, what improvements can be made?*

Subject to our General comments in the cover letter, we agree with the approach taken, the structure and broad principles and guidance.

## Other Comment

In relation to our comment in the cover letter on the EDs and their interaction with IPSAS 19, we note that the scope of ED 71 states that the ED does not apply to:

“Rights or obligations arising from **binding arrangements** within the scope of, IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets...*” (paragraph 3(h), emphasis added).

However, in AG23 of ED 71, it states:

“A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a transfer provider and a transfer recipient. A transfer recipient would need to consider whether such a public announcement gives rise to a non-legally binding (constructive) obligation under IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets.*”

As ED 71 applies to both **binding** and **non-binding** arrangements, it is unclear to us if the reference to **binding arrangements** in the scope exclusion means that the intent is for IPSAS 19 to continue to apply to non-binding arrangements within the scope of ED 71. It is also unclear whether AG23 means that if a transfer recipient considers that the public announcement gives rise to a non-legally binding (constructive) obligation under IPSAS 19, that it would disclose a contingent asset. It is also unhelpful that ED 71 refers to IPSAS 19 given that constructive obligations in that standard are written in the context of liabilities, whereas the context of ED 71 is the recognition of an inflow from the transfer recipient’s perspective.

It would be helpful if the proposed standard clarified the wording of the scope exclusion so that it is clear what it excludes and how IPSAS 19 is to be applied in the context of the proposed standard. It would also be helpful if the IPSASB considers whether IPSAS 19 would also apply to onerous contracts under this proposed standard.

### **APPENDIX 3: ED 72 TRANSFER EXPENSES**

#### **Specific Matter for Comment 1:**

*The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15.*

*Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?*

We agree that the scope of the proposed standard be limited to transfer expenses, as defined in paragraph 8.

In relation to our comment in the cover letter on the EDs and their interaction with IPSAS 19, we note that the scope of ED 72 states that the ED does not apply to:

“... Provisions as defined in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*” (paragraph 5, emphasis added).

AG23 of ED 72 states:

“A statement of intent or public announcement by a transfer provider such as a government promise to spend money or deliver goods and services in a certain way is not, in and of itself, an enforceable arrangement for the purposes of this [draft] Standard. Such a declaration is general in nature and does not create a binding arrangement between a transfer provider and a transfer recipient under which both parties have rights and obligations. A transfer provider considers whether such a public announcement gives rise to a constructive obligation in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.”

As transfers to be made outside of a binding arrangement are not enforceable by the transfer recipient, and no expense is recognized prior to the transfer provider transferring the resources (paragraph 93 of ED 72), it is unclear to us whether AG23 would require the transfer provider to consider making a provision under IPSAS 19 for the constructive obligation. If so, this seems to be inconsistent with the scope exclusion in paragraph 5 of ED 72.

It would be helpful if the proposed standard clarified:

- Whether other parts of IPSAS 19 (e.g. contingent assets, contingent liabilities) continue to apply in relation to the proposed standard as the scope exclusion in paragraph 5 of ED 72 refers only to provisions;
- How a transaction should be accounted for where a provision was recognised under IPSAS 19 and the parties subsequently entered into a binding arrangement in relation to that obligation; and
- What the scope exclusion in relation to IPSAS 19 excludes and how IPSAS 19 is to be applied.

It would also be helpful if the IPSASB considers whether IPSAS 19 would also apply to onerous contracts under the proposed standard.

Paragraph 4 and paragraph 120 of ED 72 provide that the proposed standard applies in accounting for the subsequent measurement of other non-contractual payables (except where the subsequent measurement of the payable is within the scope of another Standard). Paragraph 8 of ED 72 defines a transfer expense to exclude taxes (including other compulsory contributions and levies). Therefore, the proposed standard does not apply to the initial measurement of taxes (including other compulsory contributions and levies).

If it is intended that non-contractual payables like taxes (including other compulsory contributions and levies) are within the scope of the proposed standard, then we recommend that the IPSASB considers including guidance on how taxes (including other compulsory contributions and levies) should be accounted for. If non-contractual payables like taxes (including other compulsory contributions and levies) are not within the scope of the proposed standard, we consider it inappropriate for the proposed standard to apply to their subsequent measurement, in which case, we recommend that paragraphs 4 and 120 (and BC 67) of ED 72 be deleted.

**Specific Matter for Comment 2:**

*Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations?*

*If not, what distinction, if any, would you make?*

We agree with the proposals to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70 and ED 71.

**Specific Matter for Comment 3:**

*Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?*

The proposed standard requires that unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations. The proposed standard requires the transfer provider to assess the satisfaction of a performance obligation by reference to the third-party beneficiary obtaining control of the asset (although the transfer provider may determine the point at which the third-party beneficiary obtains control of the asset by reference to the transfer recipient losing control of that asset).

We think that requiring the transfer provider to assess when the transfer recipient loses control of the asset may, in some circumstances, be a challenge. Practically, it may be even more of a challenge if the transfer provider had to assess when the third party beneficiary obtains control of the asset.

For example, paragraph 39 of the ED sets out some indicators for the transfer of control (from the transfer recipient to the third-party beneficiary) for performance obligations satisfied at a point in time:

- The transfer recipient has a present right to payment for the asset.
- The third-party beneficiary has legal title to the asset.
- The transfer recipient has transferred physical possession of the asset.
- The third-party beneficiary has the significant risks and rewards of ownership of the asset.
- The third-party beneficiary has accepted the asset.

The indicators focus mainly on the third party beneficiary obtaining control rather than on the transfer provider losing control of the resources that it has transferred to the transfer recipient. In the absence of feedback from the transfer recipient on the satisfaction of the performance obligations, it may be difficult for the transfer provider to determine the passing of control to the third party beneficiary, particularly where there are multiple beneficiaries. It may also be difficult if the transfer provider had to monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement where these are long term arrangements that span multiple periods.

**Specific Matter for Comment 4:**

*This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:*

*(a) A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and*

*(b) A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach.*

*The rationale for this decision is set out in paragraphs BC16–BC34.*

*Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?*

Subject to comments on assessing control under Specific Matter for Comment 3, we agree with the recognition and measurement requirements for transfer expenses with performance obligations.

**Specific Matter for Comment 5:**

*If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.*

It is common for milestone grants to be provided in the public sector where future funding is conditional on the recipient performing certain actions but the recipient is not providing goods or services to third parties. For example, a grant is provided to a film production company and future grant money is dependent on the recipient completing certain phases of the production (milestones). The film production company is not providing goods or services to third parties or to the general public but needs to meet milestones in order to receive more grant money. The concept of milestone grants is not clearly articulated in ED 72. We assume that such milestone grants are binding arrangements that impose present obligations other than performance obligations on the transfer recipient.

Under paragraph 91 of ED 72, a transfer provider would recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. Under ED 71, where a transfer recipient has present obligations that are not performance obligations, it would recognize revenue as it satisfies those present obligations. There is no need for symmetry between revenue recognition in ED 71 and expense recognition in ED 72.

It is unclear from paragraph 91 of ED 72 at what point in time an obligation arises for a transfer provider in relation to the provision of milestone grants – at the inception of the binding arrangement or when the milestones are met. If an expense is recognised when the binding arrangement is signed, it would not meet the requirement that certain actions/milestones are required to be met by the transfer recipient in order to be entitled to the next tranche of funding.

Moreover, as there is no need for symmetry between ED 71 and ED 72, the last sentence of paragraph 90 (which refers to the guidance in ED 71 for present obligations other than performance obligations) is not helpful in clarifying the relevance of the transfer recipient's present obligations to the transfer provider. We recommend that the proposed standard discusses and clarifies the relevance of the transfer recipient's present obligations in the context of this proposed standard, rather than in the context of defining revenue in ED 71.

We suggest that a common sense definition of present obligation is needed and application guidance is required on when a provider is required to recognise an expense where the recipient is not providing goods or services to third parties but is required "to do something", for example, grants with that are "conditional" on other actions, for instance, where funding is to be provided on the condition that the recipient raises a matching amount of funding. When does the provider recognise the transfer expense?

**Specific Matter for Comment 6:**

*This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:*

*(a) A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future*

*benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and*

*(b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up?*

*Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?*

*If not, how would you recognize and measure transfer expenses without performance obligations?*

Subject to our comment under SMC 5, we agree with the proposed recognition and measurement requirements for transfer expenses without performance obligations and that the transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up.

We note that the exposure draft does not provide explicit guidance on the treatment of multi-year grants. In paragraph 97, on transfer expenses without performance obligations made as a series of transfers, a transfer provider is required to apply the requirements of paragraphs 91–94 to each transfer of resources to determine whether an expense is to be recognized. However, the paragraphs do not assist, for example, in determining whether the transfer provider recognises a liability for the entire amount at the point that they commit to the funding, or whether they recognise a portion in each year.

We recommend that paragraph 92 be reworded as it is confusing refer to “present obligation” in two different contexts. It is used to refer to the transfer provider’s **present obligation to provide resources to the transfer recipient** (under paragraph 91(a)) and to the **present obligations imposed on the transfer recipient** in relation to a binding arrangement.

Paragraph 91 states:

“A transfer provider shall recognize a transfer expense without performance obligations at the earlier of the following dates:

(a) When the transfer provider has a **present obligation to transfer resources** to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources; and...” [emphasis added]

Paragraph 92 states:

“For a present obligation to exist, the transfer recipient must be able to enforce the transfer of resources by the transfer provider, i.e., there must be a binding arrangement that **imposes present obligations on the transfer recipient**. For a binding arrangement to exist, the following conditions must be met:...” [emphasis added]

#### **Specific Matter for Comment 7:**

*As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, Revenue without Performance Obligations, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue.*

*Do you agree that this lack of symmetry is appropriate? If not, why not?*

Subject to our comment under SMC 5, we agree that there is no need to have symmetry between the proposed standards.

However, we recommend that the rationale for whether a liability exists for the transfer provider under AG 94 in ED 72 (i.e. the transfer provider has no control/asset until there is a breach of terms where recipient has

an obligation to return resources) be explained in a more consistent manner with the rationale in ED 71 that a transfer recipient has a liability because fulfilment of the present obligation constitutes an outflow of resources, as does a return of resources **or the imposition of some other redress in the event that the transfer recipient breaches the terms of the binding arrangement** [emphasis added].

**Specific Matter for Comment 8:**

*This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal?*

*If not, why not? What alternative treatment would you propose?*

We agree with the proposal that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources (and should therefore recognize a liability) prior to the appropriation being authorized based on a substance over form assessment (also see our comment under SMC 1 on the interaction of the ED with IPSAS 19).

**Specific Matter for Comment 9:**

*This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations, to the extent that these are appropriate.*

*Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,*

*(a) Do you think there are any additional disclosure requirements that should be included?*

*(b) Are any of the proposed disclosure requirements unnecessary?*

We agree that the disclosure requirements are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses (also see our General comment about the proposed standards in the cover letter).

**Other comments**

**Constraining estimates of variable consideration**

Paragraph 55 of ED 70 and paragraph 69 of ED 71 use IFRS 15's high hurdle as a constraint to recognise variable revenue. We think having a high hurdle ("highly probable") as a constraint is appropriate for revenue recognition. Paragraph 108 of ED 72 mirrors the paragraphs in ED 70 and ED 71 and requires the same high hurdle as a constraint to recognise variable expense. We do not consider that it is necessary to have the same high hurdle for expenses given that, in most cases, the hurdle used for expenses is "probable" rather than "highly probable".

**Subsequent measurement - discount rates**

It is unclear from paragraph 118 and paragraph 119 whether discount rates have to be reset at the reporting date in the subsequent measurement of a liability for a transfer expense that is not a financial liability as defined in IPSAS 41. Currently, the discount rate is required to be reset at each reporting date in IPSAS 19 but not under IPSAS 41, if measured at amortised cost. We recommend that the proposed standard provides some application guidance.

**Non-cash transfers**

Paragraph 114 on non-cash transfers provides that where resources transferred are non-cash assets, a transfer provider does not revalue the assets prior to derecognising those assets.

We note that occasionally there can be significant differences between the carrying value of the non-cash asset transferred and its fair value, for example, in the case of land. We recommend, under those circumstances, that the transfer provider be required to disclose that there is a significant difference between the value of the non-cash asset transferred and its fair value.

#### **Illustrative Example 34**

Based on the facts of the case and the proposed recognition criteria in paragraph 91, we do not agree with Case B of Illustrative Example 34.

In relation to Case B, we consider that the CU400,000 (in IE203) should be recognised on 1 July 20X1. Paragraph 91 of ED 72 requires that a transfer provider recognizes a transfer expense without performance obligations at the **earlier** of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources.

In Case B, the transfer provider has a present obligation to transfer resources to the transfer recipient on 1 July 20X1, an **earlier** date than when the money was paid out on 30 June 20X2. We suggest that paragraph IE 203 be amended as follows:

“The national government accounts for the remaining CU400,000 as a transfer expense without performance obligations. [Draft] IPSAS [X] (ED 72) requires a transfer provider to recognize a transfer expense without performance obligations at the earlier of the date at which it has a present obligation to transfer the resources or the date at which it ceases to control the resources. Consequently, the national government will recognize an expense on ~~June 30, 20X2~~ 1 July 20X1 unless the terms of the binding arrangement mean that it has a present obligation at an ~~earlier~~ later date. In such circumstances, the national government would recognize an expense and a payable at that ~~earlier~~ later date.”