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Per e-mail/online

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Comment on the Consultation Paper on Accounting for Revenue and Non-Exchange Expenses

Dear Joanna and John,

This response was prepared by the IPSAS working group. The IPSAS working group is an internal group of professionals from the Austrian Federal Ministry of Finance and the Austrian Court of Audit. We meet regularly to discuss IPSASs and IPSAS related issues as well as corresponding implications for the Federal Government level.

Summary
We do not apply IPSAS 23 on a federal government level and do not consolidate all controlled entities (e.g. controlled GBEs) to our financial statements therefore our experience and feedback is very limited. We discussed the options from our theoretical point of view trying to understand what this could mean for specific Austrian examples. Our discussions were mostly about how to account for certain NEE-examples (e.g. railway infrastructure, multi-year grants) we are facing difficulties with accounting for at the moment. We've had only a very short discussion about revenue examples.

Chapter 3: Analyzing Public Sector Transactions with Reference to Performance Obligations

Preliminary View 1 (following paragraph 3.8)
The IPSASB considers that it is appropriate to replace IPSAS 9, Revenue from Exchange Transactions, and IPSAS 11, Construction Contracts with an IPSAS primarily based on IFRS 15, Revenue from Contracts with Customers. Such an IPSAS will address Category C transactions that:

a) Involve the delivery of promised goods or services to customers as defined in IFRS 15; and
b) Arise from a contract (or equivalent binding arrangement) with a customer which establishes performance obligations.

Do you agree with the IPSASB's Preliminary View 1? If not, please give your reasons

Yes, we agree

Preliminary View 2 (following paragraph 3.9)
Because Category A revenue transactions do not contain any performance obligations or stipulations, the
IPSASB considers that these transactions will need to be addressed in an updated IPSAS 23.
Do you agree with the IPSASB's Preliminary View 2? If not, please give your reasons.

Yes, we agree

We had a short discussion about having a new number for an updated IPSAS 23 to avoid confusion. Especially if the PSPOA is chosen for Category B transactions the old thinking of "exchange/non-exchange" will be replaced by the concept of "performance obligations". It could be misleading to keep the old number although the concept has changed.

Specific Matter for Comment 1 (following paragraph 3.10)
Please provide details of the issues that you have encountered in applying IPSAS 23, together with an indication of the additional guidance you believe is needed in an updated IPSAS 23 for:

a) Social contributions; and/or
b) Taxes with long collection periods.

If you believe that there are further areas where the IPSASB should consider providing additional guidance in an updated IPSAS 23, please identify these and provide details of the issues that you have encountered, together with an indication of the additional guidance you believe is needed.

We do not apply IPSAS 23 for accrual accounting of revenue.

Chapter 4: Revenue Transactions (Category B) – Recognition Approaches

Preliminary View 3 (following paragraph 4.64)
The IPSASB considers that Category B transactions should be accounted for using the Public Sector Performance Obligation Approach.
Do you agree with the IPSASB's Preliminary View 3? If not, please give your reasons.

We couldn't find a conclusion to this question.

Our discussion was about whether identifying performance obligations is more intuitive and practicable than deciding if a transaction is exchange or non-exchange. To find a conclusion we would have to apply both approaches on important examples.

Specific Matter for Comment 2 (following paragraph 4.64)
The IPSASB has proposed broadening the requirements in the IFRS 15 five-step approach to facilitate applying a performance obligation approach to Category B transactions for the public sector. These five steps are as follows:
Step 1 – Identify the binding arrangement (paragraphs 4.29 - 4.35);
Step 2 – Identify the performance obligation (paragraphs 4.36 - 4.46);
Step 3 – Determine the consideration (paragraphs 4.47 – 4.50);
Step 4 – Allocate the consideration (paragraphs 4.51 – 4.54); and
Step 5 – Recognize revenue (paragraphs 4.55 – 4.58).
Do you agree with the proposals on how each of the IFRS 15 five-steps could be broadened?
If not, please explain your reasons.

Yes, we agree. The steps are clear to us. From our perspective the main question is whether "Step 2 – Identify performance obligations" is leading to better accounting and is more practicable than the existing Exchange/Non-Exchange distinction.

Specific Matter for Comment 3 (following paragraph 4.64)
If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, which option do you favor for modifying IPSAS 23 for transactions with time requirements (but no other stipulations):

a) Option (b) – Require enhanced display/disclosure;
b) Option (c) – Classify time requirements as a condition;
c) Option (d) – Classify transfers with time requirements as other obligations; or
d) Option (e) - Recognize transfers with time requirements in net assets/equity and recycle through the statement of financial performance.

Please explain your reasons.

We prefer

- b) Option (c) – Classify time requirements as a condition and
- c) Option (d) – Classify transfers with time requirements as other obligations.

If d) Option (e) is chosen the meaningful labelling of the line item in net assets/equity seems important to us

We don't like Option (b) because of the accounting

Specific Matter for Comment 4 (following paragraph 4.64)
Do you consider that the option that you have identified in SMC 3 should be used in combination with Approach 1 Option (a) – Provide additional guidance on making the exchange/non-exchange distinction?

a) Yes
b) No

Please explain your reasons.

Yes, guidance would be helpful (especially if we start applying IPSAS 23 for revenue and NEE transactions)

Chapter 5: Current IPSAS 23 Issues – Capital Grants and Services in-kind

Preliminary View 4 (following paragraph 5.5)
The IPSASB considers that accounting for capital grants should be explicitly addressed within IPSAS.
Do you agree with the IPSASB's Preliminary View 4? If not please give your reasons.

Yes, we agree. Capital grants are important for GFS (and in our case ESA) statistical accounting.
For the general government (Bund) especially accounting for capital grants from the resource provider perspective should be explicitly addressed. Due to the outsourcing in the 1990s most investment activities are carried out by outsourced companies, which are the legal and economic owners of these investments. For instance, building construction is under the remit of the public facility management company, BIG; road works and road maintenance are carried out by ASFINAG and railway infrastructure investment by the railway company ÖBB Infrastruktur AG. The federal government contributes to these investments through capital grants.

Specific Matter for Comment 5 (following paragraph 5.5)

a) Has the IPSASB identified the main issues with capital grants?
   If you think that there are other issues with capital grants, please identify them.
b) Do you have any proposals for accounting for capital grants that the IPSASB should consider?
   Please explain your issues and proposals.

a) Yes, our discussion was mainly about what is a condition compared to a restriction when applying it to our federal government context. Expense transactions are more important to us than revenue transactions. Examples of conditions and restrictions would be very useful. One of the largest cases in Austria would be the capital grants towards the ÖBB Infrastruktur AG:

In the Grant funding agreement the contractual partners (ÖBB Infrastruktur AG and federal government) agree on the funding of infrastructural investments planned for the next six years. These future investments are displayed in the budget managing system as a future obligation but recognition in the accounting does not take place.

The recognition event is the time the investment is carried out, irrespective of the time the investment (e.g. tunnels) becomes operational. At the end of each year the company states, the actual amount of investments and this is the time the expense and liability is recognized in the financial statement of the federal government. From our point of view, there are no conditions/stipulations in the Grant funding agreement.

b) No, not directly, but there is a discussion within the federal level to adopt the approach of recognizing the revenue over the useful life of the asset financed, because this was introduced on the level of States (Länder) and municipalities (Gemeinden) with the new budgeting and accounting regulations "VRV 2015" that will apply accrual budgeting and accounting from 2020 onwards. On federal level it would have little impact because the "Bund" is not really a recipient of capital grants. Could you explain why the approach of recognizing the revenue over the useful life of the asset financed by the grant is not compatible with the Conceptual Framework?

Specific Matter for Comment 6 (following paragraph 5.9)
Do you consider that the IPSASB should:

a) Retain the existing requirements for services in- kind, which permit, but do not require recognition of services in-kind; or

b) Modify requirements to require services in-kind that meet the definition of an asset to be recognized in the financial statements provided that they can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information; or
c) An alternative approach.

Please explain your reasons. If you favor an alternative approach please identify that approach and explain it.

We prefer a) Retain the existing requirements for services in- kind, which permit, but do not require recognition of services in-kind.

Chapter 6: Non-Exchange Expenses – Recognition Approaches

Preliminary View 5 (following paragraph 6.37)
The IPSASB is of the view that non-exchange transactions related to universally accessible services and collective services impose no performance obligations on the resource recipient. These non-exchange transactions should therefore be accounted for under The Extended Obligating Event Approach.
Do you agree with the IPSASB's Preliminary View 5? If not, please give your reasons.

Yes, we agree.

Preliminary View 6 (following paragraph 6.39)
The IPSASB is of the view that, because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered.
Do you agree with the IPSASB's Preliminary View 6? If not, please give your reasons.

Yes, we agree. We had a short discussion about what "services are delivered" means regarding multi-year grants for research without performance obligations (we usually have contracts that define in detail what has to be done to receive a grant).

Preliminary View 7 (following paragraph 6.42)
The IPSASB is of the view that where grants, contributions and other transfers contain either performance obligations or stipulations they should be accounted for using the PSPOA which is the counterpart to the IPSASB's preferred approach for revenue.
Do you agree with the IPSASB's Preliminary View 7? If not, please give your reasons.

Yes, we agree. A symmetrical approach seems to be most practicable to us.

Chapter 7:

Preliminary view 8 (following paragraph 7.18)
The Board considers that at initial recognition, non-contractual receivables should be measured at face value (legislated amount) of the transaction(s) with any amount expected to be uncollectible identified as an impairment.
Do you agree with the IPSASB's Preliminary View 8? If not, please give your reasons.

Yes, we agree.

Preliminary View 9 (following paragraph 7.34)
The IPSASB considers that subsequent measurement of non-contractual receivables should use the fair value approach.
Do you agree with the IPSASB's Preliminary View 9? If not, please give your reasons.

We didn't find a conclusion.

Specific Matter for Comment 7 (following paragraph 7.46)

For subsequent measurement of non-contractual payables do you support:

a) Cost of Fulfillment Approach:
b) Amortized Cost Approach;
c) Hybrid Approach; or
d) IPSAS 19 requirements?

Please explain your reasons.

We didn’t find a conclusion. We are using the face value for receivables in general (discounted if they are long-term). For liabilities/payables we are using the amount that has to be paid (without discounting for long-term payables).