

Responses to IPSASB Exposure Draft 72: Transfer Expenses

(February 2020; Comments due: November 1, 2020)

**EXPOSURE DRAFT 72,
TRANSFER EXPENSES**

*The Technical Director
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Brasília, Brazil
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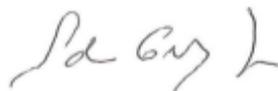
Dear Mr. Ross Smith,

The *Conselho Federal de Contabilidade* (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on IPSASB *Exposure Draft 72, Transfer Expenses*. CFC, alongside with its regional arms - Regional Accounting Councils or *Conselhos Regionais de Contabilidade* (CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Brazilian Public Sector Accounting Standards Advisory Board (GA/NBC TSP) of the CFC.

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.

Regards,



Idésio S. Coelho
Technical Vice-President
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APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, the Federal District and 5,569 municipalities governments. These levels of governments are responsible for formulating, implementing, and evaluating public policies in cooperative and/or competitive arrangements.

In this document, we present the contributions for the exposure draft based on a practical approach applicable to our jurisdiction.

In the next section, we present our comments and answers on the specific matters for comment of the exposure draft.

2. Responses to the Specific Matters for Comment and Preliminary Views

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?

Answer:

GA/CFC agrees that the scope of this standard is clear. However, GA/CFC thinks that it is necessary to clarify that transfers with performance obligations also include those in which the transfer recipient is obliged to spend own resources (consideration) for the supply of goods and services to third parties. And that consideration will not be a transfer expense.

For example, the National Government promises to transfer \$ 100 to a Subnational Government for the purchase of vaccines, but the transferee should spend \$ 20 of its own resources. Thus, the population will benefit from \$ 120 of vaccines purchased with national resources (transfer in accordance with ED 71) and with local (expenditure that is out the scope of ED 71).

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?

Answer:

GA/CFC partially agrees with the proposals in this [draft] Standards. The definition in paragraph 90 (a) does not mirror the ED 71 requirements, because the transfer may be recognized as a liability in the transfer recipient financial statements, and only expense in the transfer provider financial statements where a present obligation exists for transfer recipient. Also, it would be necessary to include in ED 70 that, when the transfer recipient is required to use own resources it is not a revenue derived from the transfer provider.

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?

Answer:

GA/CFC agrees with the proposal in this [draft] Standard, where the transfer provider does not monitor the transfer recipient's satisfaction of its performance obligations, a transfer provider shall account for the transfer expense as a transfer expense without performance obligations. In this case, it shall recognize an expense.

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?

Answer:

GA/CFC agrees 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.

Answer:

GA/CFC considers that main practical difficulties with applying the recognition and measurement requirements are related to impairment. In some cases, the transfer provider monitors the performance obligation based on sample of transfer recipients that affects the expectation about the enforceable obligation by the transfer recipient and, consequently, the determination of the impairment loss. Other variables should be considered, such as matching provision (as exemplified in specific matter for comment 1) and guarantees and counter-guarantees that are required in some binding arrangements. Regarding the guarantees and counter-guarantees, it is necessary to assess whether a provision or contingent liability exists according to IPSAS 19 for both transfer provider or transfer recipient.

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?

Answer:

GA/CFC partially agrees with the recognition and measurement requirements for transfer expenses without performance obligations. The requirements are appropriate for the transfer expenses without performance obligation and other obligations.

The transfer expenses without performance obligations, but with other obligations, must have similar accounting treatment to the transfer expenses with performance obligations. The monitoring can't occur, because it is more difficult. In this case, the transfer provider shall recognize the expense where it transfers the resources and disclose that fact along with an explanation of why it is unable to monitor the satisfaction of the transfer recipient's obligations.

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?

Answer:

GA/CFC agrees that lack of symmetry is appropriate. However, other cases should be explained in this [draft] Standards:

(1) If a present obligation exists in transfer recipient, probably the right exists in the transfer provider, because the judgment about the enforceability of the present obligation is based on the behavior and/or the monitoring quality of the transfer provider. So, it is expected that there will

be a change in the transfer provider assets (cash to receivable) when the promised resources are transferred, that gives rise to a present obligation in the transfer recipient. Where the transfer provider monitors the obligations satisfaction, the differences in professional judgment may exist in relation to amount and the time that an obligation is satisfied for the transfer provider and recipient perspectives. So the lack of symmetry happens, but not because transfer provider always recognizes the resources are transferred as an expense.

(2) Sometimes, the transfer recipient may recognize a revenue earlier than a transfer provider recognizes expense. For example, in an emergency situation, the Subnational Government may receive a precarious authorization from the National Government to carry out the transfer of resources to the population. The National Government's obligation will only be accounted for after the aid is formalized (binding arrangement), but the Subnational Government's revenue will be recognized when transferring resources to third parties.

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?

Answer:

GA/CFC agrees with this proposal.

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?

Answer:

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GA/CFC agrees that the disclosure requirements are appropriate.