



KOREA INSTITUTE OF PUBLIC FINANCE

Government Accounting and Finance Statistics Center

IPSASB Exposure Drafts

Transfer Expenses and Revenue

***Comments on the Exposure Draft 72,
Transfer Expenses***

October 30, 2020

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Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

**Re: The comments on the Exposure Draft 72,
*Transfer Expenses***

Dear Mr. Smith,

The Government Accounting and Finance Statistics Center (hereinafter referred to as the “GAFSC”) at Korea Institute of Public Finance would like to express our sincere gratitude for the opportunity to respond to Exposure Draft 72, Transfer Expenses issued by the International Public Sector Accounting Standards Board.

The comments have been prepared and reviewed by the staff and the Government Accounting Advisory Committee of the GAFSC, and are available in the following pages. Please feel free to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staff of the GAFSC, Grace Choi (gracechoi@kipf.re.kr).

Sincerely,



Kim, Wan Hee
Chief Director of GAFSC at KIPF

[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?

[GAFSC Comments] No comment.

[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?

[GAFSC Comments] No comment.

[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?

[GAFSC Comments]

Agree with the suggestion of IPSASB. Besides, it is recommendable that additional paragraphs or AG would be helpful to clarify the meaning and practical scope of the 'monitor' in paragraph 13(d).

Whether the transfer provider is able to monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement is an important determinant for the timing of transfer expense recognition. According to IPSASB, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations, the transfer provider would not have reliable information about when to recognize a transfer expense(BC 38) and hence a transfer provider may account for a transfer expense as a transfer expense with performance obligations only if it monitors the transfer recipient's satisfaction of its performance obligations(AG27). Yet, ED 72 does not specify what the 'monitor' of transfer provider mean and what criteria could be applied to determine whether transfer provider is able to obtain reliable information on the satisfaction of performance obligations.

If IPSASB would decide to refine the meaning and scope of monitor, the following list of considerations could be helpful.

First, in a practical sense, for the ability of ‘monitoring’ of transfer provider to gain the actual impact, the transfer provider should have the reporting system that reports the status of the satisfaction of transfer recipient’s performance obligations in a timely manner. Examples of the reporting system would be the terms within binding arrangement and laws or regulation that require to periodically report transfer recipient’s satisfaction of performance obligation within the fiscal year, as well as, developing the IT system supporting the ‘monitor’ of performance obligations.

Second, the fact that determining the timing of recognition for transfer expense depends on the presence of monitoring might lead to the transfer provider requiring the information on satisfaction of performance obligation from the transfer recipient, as well as, it could serve as a motivation of the transfer provider to strengthen the legal and institutional authority to monitor the process of satisfying performance obligations. The tendency of transfer provider might lead to the expansion of transfer provider’s right to centralized control and that as a result could violate the horizontal and independent relationship among public sector entities*. To avoid the expansion of centralized control, IPSASB might need to consider reflecting the difference in type and relationship between transfer provider and transfer recipient on the definition and scope of monitoring.

* An example would be the relationship between transfer provider and transfer recipient being central government and provincial government respectively.

[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?

[GAFSC Comments]

Partially agree with IPSASB's proposal.

Additional paragraphs in BC and AG need to be developed to clearly state the circumstances of the transfer provider would recognize an asset for the right to have goods or services provided to third-party beneficiaries, and develop IE, if considered necessary.

BC21-22 of ED 72 state that in some cases, the terms of the binding arrangement would result in the transfer provider having a present obligation to transfer resources to the transfer recipient prior to the transfer recipient having satisfied its performance obligations, and it lead to the situation that transfer provider should recognize a corresponding asset at the point it recognizes the liability.

Nevertheless, BC33-34 and SMC4 indicate that once the transfer provider has entered into the binding arrangement, the transfer provider would recognize an asset for the right to have goods or services provided to third-party beneficiaries, which is contradicting to BC21-22 that BC33-34 and SMC4 do not limit the incurrence of asset attributable to certain circumstances.

To avoid the confusion surrounding asset recognition related to the transaction of transfer expenses with performance obligations, the relevant BC and AG should clearly explain and define whether the transfer provider should recognize asset and liability(present obligation) every time the transfer provider enters into the binding arrangement or recognize asset and liability(present obligation) only for the certain situation depending on the terms of the binding arrangement. Moreover, providing IE illustrating the process of transfer provider derecognize the asset and recognize transfer expenses upon the transfer recipient satisfying a performance obligation would be helpful for the users.

[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.

[GAFSC Comments]

Based on the Korean case, the anticipated difficulties for applying the recognition and measurement requirements for transfer expenses without performance obligations are as follows:

First, transactions of transfer expenses usually have complex and various paths, which further result in the information gap among the parties involved in the transaction due to the delay in acquiring information or production of unstandardized information. Especially, when it comes to the transactions of transfer expenses for, such as, subsidies, the paths of delivering the funding to the final beneficiaries(citizens or enterprises) involve minimum of three or four public sector entities.

Second, there is lack of institutional mechanism and computerized infrastructure in place to obtain timely and reliable information on the result of the satisfaction of performance obligations of transfer recipients.

In practice, considerable time and manpower are required to produce reliable information on the satisfaction of the performance obligations. Also, the laws related to the transfer expenses require to submit the performance report within the next fiscal year. For instance, according to the 「 Subsidy Management Act」 in Korea, the subsidy program operator(transfer recipient) should submit the performance result within two months after the closing date of fiscal year. The current institutional

environment might cause delay for the transfer provider to acquire the information related to the satisfaction of performance obligations from the transfer recipient. In addition, the fact that involved parties in the transaction are using different computerized system could make it difficult to ensure timeliness of the information.

To solve the issues above, changes in legal and institutional environment are required together with the development of computerized infrastructure. The transfer provider should have the explicit right to require the information on satisfaction of performance obligation from the transfer recipient. In order to effectively realize the right, the computerized system should be served as the foundation of the institutional environment by enabling frequent or timely sharing of information related to performance obligations among involved parties in the transactions of transfer expenses.

[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?

[GAFSC Comments] No comment.

[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?

[GAFSC Comments] No comment.

[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?

[GAFSC Comments] No comment.

[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?

[GAFSC Comments] No comment.

[Other Comments]

Due to policy purposes, public sector entities sometimes enter into the onerous binding arrangements* (Ex: Public sector entity entered into an onerous contract under the direction of central government controlling the public sector entity).

* It can be interpreted that the binding arrangement for transfer of goods or services in which the unavoidable costs of satisfying the performance obligations under the arrangement exceed the economic benefits or service potential expected to be received under it.

The requirements for recognition and measurement of onerous contract are provided in paragraphs 76 and 80 of IPSAS 19, 'Provisions, Contingent Liabilities and Contingent Assets', and paragraph 3(e) of ED 70 broadly states that the 'rights or obligations arising from binding arrangements within the scope of, IPSAS 19' is excluded from the scope of ED 70. Hereupon, the users might have a difficult time figuring out which Standard is applicable to the 'onerous binding arrangements(including onerous contract)', as well as, whether provision should be recognized. For that reason, it is advisable for IPSASB to separately provide additional AG indicating that 'onerous binding arrangements(including onerous contract)' is not part of the scope of ED 70, 'Revenues with Performance Obligations'.