

Ian Carruthers
Chairman
IPSASB
IFAC

Submitted via website

Brussels, 15 December 2017

Subject: IPSASB Consultation Paper on Accounting for Revenue and Non-Exchange Expenses

Dear Sir,

We are pleased to respond to the IPSASB's public consultation on Accounting for Revenue and Non-Exchange Expenses.

We encourage the development of high quality financial reporting standards which are designed to address the specificities of the public sector environment.

We believe that currently gaps exist in the suite of IPSAS Standards on the accounting treatment of expenses (e.g. accounting guidance on non-exchange expenses is missing). Additionally, we would like to point out that preparers encounter difficulties when applying the accounting requirements stipulated in IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

The International Accounting Standards Board (IASB) issued IFRS 15 *Revenue from Contracts with Customers* as a replacement to IAS 11 *Construction Contracts* and IAS 18 *Revenue*. This new IFRS Standard on revenue stipulates a new performance obligation approach for revenue recognition. We believe that full convergence of IPSAS Standards with IASB literature should be pursued for transactions with similar substance.

We also think that this project could serve as an opportunity to review the IPSAS Standards on revenue against the principles set out in the *Conceptual Framework*.

We think that the Preliminary Views and Specific Matters for Comment, outlined in this Consultation Paper, could contribute to improvements on accounting for revenue and to the development of potential requirements and guidance for non-exchange expenses. Users need information on the provision of services to constituents and on the resources available for future use for decision-making and accountability purposes.

Revenue recognition

We agree to replace IPSAS 9 Revenue from Exchange Transactions and IPSAS 11 Construction contracts by a new IPSAS Standard based on the performance obligation approach stipulated by IFRS 15 Revenue from Contracts with Customers for enforceable agreements (i.e. binding arrangements which are not necessarily of a contractual nature) that meet the definition and scope of IFRS 15 (i.e. **Category C** transactions in the Consultation Paper).

We concur with the view that the accounting treatment of revenue transactions that do not contain performance obligations or stipulations (i.e. **Category A** transactions in the Consultation Paper, for example taxes and transfers) should be addressed in an updated version of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

We support the Public Sector Performance Obligation Approach (PSPOA) for transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15 (i.e. **Category B** in the Consultation Paper).

Capital grants

We support mirroring the capital grants' treatment in accordance with IAS 20 *Government Grants and Disclosure of Government Assistance* under IPSAS to achieve convergence between the two accounting frameworks.

Services in-kind

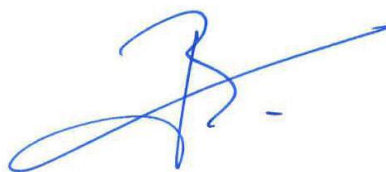
We propose an alternative, more practical accounting approach for services in-kind. We suggest only recognizing services in-kind delivered by traders or professionals. In case of services delivered by traders or professionals, it will likely be feasible to obtain a viable measure of the services provided by reference to the cost of obtaining such services in an observable commercial transaction. We also recommend the IPSASB to highlight in the Application Guidance or Basis for Conclusions the importance of the *Conceptual Framework's* qualitative characteristics (e.g. relevance) in this context. We believe that this principle will result in useful information for the users of the accounts.

Please do not hesitate to contact Ben Renier (ben@accountancyeurope.eu) in case of any additional questions or remarks.

Sincerely,



Edelfried Schneider
President



Olivier Boutellis-Taft
Chief Executive

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ANNEX 1 – DETAILED RESPONSE

- (1) We are pleased to present below our responses to the Preliminary Views and Specific Matters for Comment.
- (2) Regarding revenue recognition, the IPSASB has proposed to categorize revenue transactions into three broad categories (i.e. Category A, Category B, and Category C). We would like to make the following general remarks concerning this categorisation of revenue transactions. Firstly, we believe it would be very important to provide detailed guidance around the scope of each category (e.g. classification of certain social contributions in either Category A or B). Secondly, we would like to underline that governmental entities have a very significant number of Category A transactions compared to both Category B and Category C transactions. Lastly, we would support a recognition model regarding Category B transactions (i.e. PSPOA; see also Question 4 for more details) which is as close as possible to the model for Category C transactions (i.e. IFRS 15 revenue recognition model; see also Question 1 for more details) to avoid complicating the application of these principles in practise).
- (3) We believe it would be helpful to have guidance concerning the accounting of “pass through” transactions (both inflows and outflows), i.e. funds are transferred from the original resource provider to the ultimate resource recipient via intermediary(ies). Additionally, we would also welcome guidance helping to make the distinction between “agent” (i.e. showing net amounts) and “principal” (i.e. showing gross amounts) accounting.

Question 1: 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.

- (4) We agree to replace IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 11 *Construction contracts* by a new IPSAS Standard based on the performance obligation approach stipulated by IFRS 15 *Revenue from Contracts with Customers* for enforceable agreements (i.e. binding arrangements which are not necessarily of a contractual nature) that meet the definition and scope of IFRS 15 (i.e. Category C transactions in the Consultation Paper). We believe that full convergence of IPSAS Standards with IASB literature should be pursued for transactions with similar substance.

Question 2: 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.

- (5) We concur with the view that the accounting treatment of revenue transactions that do not contain performance obligations or stipulations (i.e. Category A transactions in the Consultation Paper, for example taxes and transfers) should be addressed in an updated version of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Question 3: 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.

- (6) We confirm that additional guidance should be provided in an updated version of IPSAS 23 on social contributions and taxes with long collection periods.

Question 4: 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.

- (7) We support the Public Sector Performance Obligation Approach (PSPOA) for transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15 (i.e. Category B in the Consultation Paper).
- (8) For Category B transactions, we welcome an accounting approach based on the IFRS 15 five-step model (i.e. the performance obligation approach) but adequately adapted for the public sector environment.

Question 5: Specific Matter for Comment 2 (following paragraph 4.64)

The IPSASB has proposed broadening the requirements to 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.

- (9) We concur with the proposed broadening of the IFRS 15 five-steps as stipulated in the Consultation Paper. We think that these adaptations are necessary to apply the performance obligation approach effectively to Category B transactions in the public sector. On the other hand, we recommend focusing on these major adaptations in an initial stage to avoid complicating the application of these principles in practise. Any additional necessary adaptations might be identified in the light of a Post Implementation Review.

Question 6: 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 favour 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.

- (10) We would like to reiterate that we favour Approach 2, i.e. the PSPOA, for the revenue recognition of Category B transactions. We refer to our response to Preliminary View 3.
- (11) We agree that the current IPSAS 23 treatment of transfers with time requirements (and no other stipulations), i.e. revenue recognition by the resource recipient when the transfers are receivable, might not provide appropriate information to the users about the period over which the resource provider intends the resources to be used.
- (12) If the IPSASB were to implement Approach 1 and update IPSAS 23 for Category B transactions, we would favour Option (d) which stipulates that transfers with time requirements should be classified as other obligations. We believe that this option (i.e. Option (d)) will result in information that is useful for meaningful assessment of the financial performance and financial position of a public sector entity.
- (13) Option (d) is consistent with the IPSASB *Conceptual Framework* and moreover would allow to recognize revenue over more than one reporting period if applicable.
- (14) We do not favour Option (e) which entails the recognition of transfers with time requirements in net assets/equity and subsequently recycle them through the statement of financial performance. Although the recycling option is consistent with the IPSASB *Conceptual Framework*, this approach would lead to the introduction of the notion 'Other Comprehensive Income' in IPSAS which might undermine the understandability of information by the users including citizens.

Question 7: 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) – Provided additional guidance on making the exchange/non-exchange distinction?

- a) *Yes*
- b) *No*

Please explain your reasons.

- (15) Yes, we agree combining the option identified in SMC 3 (i.e. Option (d)) with Approach 1 Option (a), which entails to provide additional guidance on making the exchange/non-exchange distinction. In practice it is sometimes difficult to apply the terms 'directly' and 'approximately equal value', which are included in the definitions of exchange and non-exchange transactions, to a specific transaction. We welcome additional guidance to address this issue.

Question 8: 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.

- (16) We recommend the IPSASB to explicitly address the accounting for capital grants to ensure consistency and comparability.

Question 9: 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.

- (17) We think that the pattern of revenue recognition is indeed the main issue concerning the accounting of capital grants. The lack of specific guidance leads to revenue being recognized in various ways depending on whether the funding includes restrictions and/or conditions.
- (18) We support mirroring the capital grants' treatment in accordance with IAS 20 *Government Grants and Disclosure of Government Assistance* under IPSAS to achieve convergence between the two accounting frameworks.

Question 10: 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 recognised 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 favour an alternative approach, please identify that approach and explain it.

- (19) We note that the current option to recognise services in-kind is rarely applied in practice. This might result from the practical difficulties to generate reliable information or the limited informational value of this information.
- (20) As such we propose an alternative, more practical accounting approach for services in-kind. We suggest only recognizing services in-kind delivered by traders or professionals (please see next paragraph for explanation of this notion). In case of services delivered by traders or professionals, it will likely be feasible to obtain a viable measure of the services provided by reference to the cost of obtaining such services in an observable commercial transaction. We also recommend the IPSASB to highlight in the Application Guidance or Basis for Conclusions the importance of the *Conceptual Framework's* qualitative characteristics (e.g. relevance) in this context. We believe that this principle will result in useful information for the users of the accounts.
- (21) Concerning the notion 'services in-kind delivered by traders or professionals', we are referring to services provided for free by individuals which are offering (or offered) similar professional services at market conditions as part of their normal professional activities (e.g. a professional accountant does the bookkeeping of an NGO for free or a taxi driver offers free taxi rides to a non-for-profit organisation).

Question 11: 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.

- (22) We agree that non-exchange transactions related to both universally accessible services and collective services do not impose performance obligations on the resource recipient. Consequently, these non-exchange transactions should indeed be accounted for in accordance with the Extended Obligating Event Approach.

Question 12: 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.

- (23) Resources linked to non-exchange transactions of universally accessible services and collective services should indeed be expensed as services are delivered considering that there is no related obligating event.

Question 13: 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.

- (24) We concur applying the PSPOA for non-exchange expenses to recognize expenses and liabilities linked to grants, contributions, and other transfers that contain either performance obligations or stipulations. The five-step revenue recognition approach should be reconfigured from the perspective of the resource provider.

Question 14: 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.

- (25) We support initial measurement of non-contractual receivables at face value (legislated amount) of the transaction with any amount expected to be uncollectible identified as an impairment. We believe this approach promotes accountability and is in the public interest. Where uncollectible amounts are significant, management and elected officials should provide explanations.

Question 15: 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.

- (26) We concur with the Preliminary View 9, namely that non-contractual receivables should be measured subsequently in accordance with the fair value approach.

Question 16: Specific Matter for comment 7 (following paragraph 7.46)

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

- a) *Cost of Fulfilment Approach;*
- b) *Amortized Cost Approach;*
- c) *Hybrid Approach; or*
- d) *IPSAS 19 requirements?*

Please explain your reasons.

- (27) We would need to better understand the differences of the information produced from a public interest or users' perspective to conclude on this matter. Currently, we would have a slight preference for Option a) Cost of Fulfilment as this is in accordance with the *Conceptual Framework* and produces understandable information, as outlined in paragraph 7.42 of the Consultation Paper. However, we do not have a strong view on that.