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13 November 2020

Ian Carruthers
Chair
International Public Sector Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2
Canada

Dear Mr. Carruthers

Exposure Draft 71 *Revenue without Performance Obligations*

I am pleased to make this submission on Exposure Draft 71 *Revenue without Performance Obligations*.

I have over 30 years of experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

My current position is at the Queensland Audit Office where we audit Queensland state government entities, universities and local governments.

I have followed the IASB's project on IFRS 15 for over 10 years, and have been involved in the implementation of Australia's equivalent to IFRS 15 (AASB 15) in the public sector.

I include my detailed responses below.

Yours sincerely,

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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?

I include comments below on the following issues:
a) Examples
b) Enforcement – Appropriations - "exit" or "termination for convenience" clauses
c) Enforcement – Appropriations - "exit" or "termination for convenience" clauses – implications
d) History of enforcement – past practice
e) Present obligation - specified activity or incurring eligible expenditure
f) Present obligation – Unspent funds
g) Clarifications - specified activity or incurring eligible expenditure
h) Present obligation – other than specified activity or incurring eligible expenditure

a) Examples

I will need to update the list I previously sent to IPSASB staff and send separately.

b) Enforcement – Appropriations - "exit" or "termination for convenience" clauses

ED71 needs to further address enforceability in the public sector, particularly in relation to appropriations and what in substance means. Often government transfer providers include an "exit" or "termination for convenience" clause allowing them to avoid paying any extra funding. This is often to ensure that they are not obligated for any payments that have not been appropriated or change in government / priorities. It is common for such clauses to have provisions that the transfer recipient retains funds that have been spent, even if not acquitted for yet (e.g. by regular acquittal reports).

I do not agree that the clauses do not have legal substance. I think that they do have legal substance, i.e. they have "clear economic consequences", "little if any discretion to avoid" and "enforceable by law". I think the clauses do not have economic substance, as they are routinely ignored by transfer recipients.

Applying the above substance reasoning to "exit" or "termination for convenience" clauses would mean that because such clauses are routinely ignored by funding recipients (as shown by similar pricing and terms for arrangements with such clauses and those without such clauses), such clauses should be considered as being without economic substance. This would be different to the enforceable reasoning applied in ED71.

Some in Australia have argued that "termination for convenience" clauses are a financial liability (refer AASB staff paper AASB November 2020 meeting. However,

that paper does not explore the implication of such a view – i.e. that no revenue is recognised for the activities undertaken.

c) Enforcement – Appropriations - “exit” or “termination for convenience” clauses – implications

For grants paid in arrears, for example some reimbursement of expenditures, and some capital grants, payments are due and payable by the transfer provider when a progress milestone or acquittal is made.

Under these arrangements, the transfer recipient may not have a legally binding right to a transfer recipient’s binding arrangement asset (e.g. payments made under the present obligation, such as reimbursement of expenditure paid in arrears), should the transfer provider terminate the contract between milestones. However, termination of such contracts is rare, and for practical purposes treated as being enforceable, but as discussed above as not having economic substance.

The reality should be included in the standard. This includes the substance is the agreements are enforceable, and the transfer recipient has an unbilled receivable. It would be stupid for transfer recipients to have to monitor the budget appropriations for the unpaid accrued expenditure owed by the transfer provider.

It would also be illogical to use accrual accounting for grants paid in advance, but use cash recognition for grants paid in arrears for similar binding arrangements.

d) History of enforcement – past practice

I disagree with paragraph 24 that permits past history of non-enforcement to override the enforcement power. If the power exists, then the agreement is enforceable.

e) Present obligation - specified activity or incurring eligible expenditure

I agree that specified activities and incurring eligible expenditure represents a present obligation. The definitions of specified activities and eligible expenditure are the types of approaches I have seen governments implement grant arrangements when implementing Australia’s version of IFRS 15 (being AASB 15). Such arrangements often used similar terms like “Project” and “Authorised expenditure”. Under these arrangements, there is a binding obligation to use the resources (usually spending cash) in accordance with the arrangements, or return the unspent money, There is usually an obligation to return any money not spent in accordance with the arrangement.

There needs to be a specific link (paragraph 47) that the specified activities and incurring eligible expenditure represents a present obligation. At the moment, there is no reference from paragraph 47 to the terms specified activities and incurring eligible expenditure. This link is included in Basis for conclusions paragraph BC13 and needs to be brought into the standard.

47. A present obligation is a duty to act or perform in a particular way and may give rise to a liability in respect of any transaction without a performance obligation. Present obligations may be imposed by requirements in binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

There needs to be a stronger link from paragraph 17 to the definition of a present obligation. My reading of ED71 is that specified activities and incurring eligible expenditure are present obligations, but paragraph 17 indicates that the preparer only "considers" whether they are or are not.

17. The transfer recipient considers whether an obligation to perform a specified activity or incur an eligible expenditure is a present obligation.

ED71 should specifically state that the specified activities and incurring eligible expenditure represents a present obligation under the conceptual framework, without utilising the IPSASB extensions for "other liabilities".

f) Present obligation – Unspent funds

Para 16 should be consistent with paragraph 21, and state that:

> 16. …Further such an arrangement leads to an outflow of resources because the transfer recipient cannot avoid using those resources either to fulfill the requirements in the binding arrangement
>
> And add
> "or return resources to the transfer provider "

In many of the agreements I have reviewed, the obligation to return unspent funds is not conditional on a breach occurring – it is part of the agreement, usually under a separate clause to the breach provisions in the agreement. For example, if there are unspent funds, and everything has been complied with, the funds have to be returned – there has been no breach.

The existing wording "or in the event of a breach of a binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty" makes the agreement binding – it does not establish a present obligation. The wording should be updated to reflect that the refund provisions (e.g. for unspent funds) are part of the agreement and that those provisions make the obligation to spend the funds as agreed or return the unspent funds a present obligation – and that no breach is required for a present obligation.

Basis for conclusions paragraph BC12 also needs to be updated for this reasoning.

g) Clarifications - specified activity or incurring eligible expenditure

ED71 should clarify that it does not matter which category is met, as they are both present obligations (for binding arrangements).

ED71 needs to clarify / explain that:

- incurring eligible expenditure is a present obligation, even if incurring the eligible expenditure is in the control of recipient. I often found that the spending of the eligible expenditure was not binding, but if not spent there was an obligation to return the funds. These arrangements differed to specified activities where the "Project" was required to be completed.
- even if money is spent for the recipient's benefit, it is still a present obligation to spend the money (or return it).

An example covering both specified activities and incurring eligible expenditure is paragraph AG25 – funds for a marketing manager. Specific activity would be that the entity would be required to employ the marketing manager, while an eligible expenditure example would be that if a marketing manager is employed the funds could be used for their salary (or funds returned).

> AG25 …. For example, funding may be provided to a university to employ a marketing manager to promote the university's courses to overseas students. The binding arrangement specifies that the funding is to be spent on promoting the university overseas and that the marketing manager's salary, travel expenses and any promotional materials used would all be classified as eligible expenditures.

h) Present obligation – other than specified activity or incurring eligible expenditure

ED71 needs to clarify if it is envisaged that there may be present obligations in binding arrangements (for funding) other than specified activities and incurring eligible expenditure.

While I have not undertaken research to evaluate all binding arrangements, my experience is that I believe that binding arrangements relating to expenditure (and the return of unspent funds) would meet the categories of specified activities and incurring eligible expenditure. This is because when determining what has been unspent on specified activities (and therefore what has to be returned), or what was eligible (or ineligible expenditure), you have to know that has to be returned – these are usually defined. If the funding is for generally activities (with some sort of protective clause about not wasting the money, or spending it on overseas trips or lavish parties), then this would essentially be a gift, and should be recognised upfront. While there may be a time limit, if the expenditure is not sufficiently defined (as in meeting the definitions of specified activities or eligible expenditure), you do not know how much remains unspent.

Having said that, in Australia we have an issue with "upfront" or "prepaid" grants. Specifically, Financial Assistance Grants from the commonwealth government to local government. These are linked to financial years. However, often the commonwealth government will make a funding payment (for some of the financial year grant) before 30 June (the common yearend). Because of the Australian rules, and presumably those in ED72, and because there are no restrictions on using the cash in normal operations immediately, the amount has to be recognised on receipt. However, given the size of the grant, and the closeness to the start of the financial year that it relates to, it should be relatively easy to identify if any of the cash has been spent early, or not, and the amount deferred to the appropriate financial year. Given the lack of consistency by the commonwealth government in how it makes these payments (sometimes it pays before the start of the financial year, sometimes it does not), results of local governments can vary considerably from one financial year to another, merely by the timing of this commonwealth government payment, and not by the underlying operations or performance of the local government.

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?

I agree with the flowchart, subject to my comments above about better linking present obligations to specified activities and incurring eligible expenditure.

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?

I include comments below on the following issues:
a) Combining ED71 present obligations with ED70 Performance Obligations
b) Funding in arrears – Unbilled revenue
c) Revenue constraint flaws
d) Capital Transfers and present obligations
e) Capital Transfers – Identification of asset
f) Capital transfers and Gifts and Donations, including Goods In-kind

a) Combining ED71 present obligations with ED70 Performance Obligations

There appears to be considerable duplication of the ED71 requirements for accounting for binding arrangements with present obligations with the ED70 requirements for performance obligations. I believe it would be much easier if the definition of performance obligation under ED70 was expanded to include the ED71 present obligations to undertake “specified activities” and incur “eligible expenditure”. As I noted above, under Specific Matter for Comment 1, that present obligation should be defined as including “specified activities” or incurring “eligible expenditure”. I also raised the issue as to whether it is envisaged whether there would be any present obligations under binding arrangements (for funding received) that do not meet those categories.

However, the above suggestion is based on ED72 not requiring “mirror” accounting of ED70 – refer my separate submission on the issue. If IPSASB was to proceed with ED72 largely as proposed (“mirror” accounting for performance obligations), then I believe that ED71 will need to include the duplicated mechanisms of ED70.

b) Funding in arrears – Unbilled revenue

The drafting assumes that funding is in advance. Some funding is an arrears. Therefore, under some arrangements, the transfer recipient will be satisfying present obligations before being paid.

ED71 needs to more explicit in recognising “unbilled revenue” – i.e. a transfer recipient’s binding arrangement asset for reimbursable expenditure / payments in arrears.

At present, the recognition of revenue appears to only occur when there is an "inflow of resources", which may not include accrued revenue – being revenue earned, with the right to bill and to be paid in the future.

c) Revenue constraint flaws

The revenue constraint has two flaws. The first flaw is that the constraint applies to an asset, and is not consistent with ED70 paragraph 55 that applies the constraint to the transaction price. This approach seems to ignore the constraint on recognising revenue when funding is paid in advance (and a liability is recognised).

> Paragraph AG33 does not restrict the revenue constraint just to assets:
>
> AG33. A transfer recipient shall apply the requirements in paragraphs 60-71 (including the requirements for constraining measurement in paragraphs 69-70) to determine the amount of revenue to which the transfer recipient expects to be entitled. For any revenue for which a transfer recipient does not believe it is highly probable that a significant reversal in the amount will not occur, the transfer recipient shall not recognize revenue. Subsequently, at the end of each reporting period, the transfer recipient shall update its assessment of amounts for which it expects to be entitled in order to determine whether the threshold for measurement has been achieved.
>
> However Basis for Conclusions paragraph BC16 does restrict the constraint to assets.

The second flaw is that the constraint acts as a conservative approach to recognising assets (i.e. do not overstate the asset). For liabilities, the conservative approach would be for liabilities to be overstated, rather than understated. This issue may be resolved by focusing on the transaction price, rather than assets or liabilities.

d) Capital Transfers and present obligations

Paragraphs 108 and 109 do not provide sufficient guidance on dealing with capital transfers with present obligations. Basis for conclusions paragraph BC23 acknowledges that there may be multiple present obligations, but does not address how to account for these arrangements.

ED71 needs to better address capital transfers with present obligations (especially specified activities). I.e. If there are related present obligations, is the capital transfer recognised over the construction period, or over the period of the present obligation (e.g. use of building for school activities).

Present obligations might include specific activities – i.e. if you do not use the building for the specified activities, you have to repay some or all of the money In some cases I have seen return obligations linked to time (i.e. proportionately reduced over time), and in others the whole (original) amount has to be returned whenever the activity is stopped. Apparently sloppy drafting that may have unintended accounting consequences if the potential return obligation is recognised as a liability.

Examples include grants to build schools and childcare services to be used for school (and possibly community activities outside school hours) and childcare services. The volume of use may not be sufficiently specific (e.g. number of

students) (and meaning that the performance obligation is not sufficiently specific). The volume may be within the control of the school / childcare service (e.g. as low as one student or even no students for a period of time).

An example of the difficulty to determining whether an obligation is a performance obligation or a present obligation is in relation to the distribution of grant monies. The agency is allocated a certain amount of funding for grants, or for concessional loans. There may be no minimum. Demand may be outside the control of the department – i.e. eligible recipients have to apply. Any undistributed funds are required to be returned. Is this obligation a performance obligation (in particular, does it meet the sufficiently specific requirement) or is a present obligation. In Australia, this is significant, as we have an equivalent of ED70, but not ED71. For IPSASs, this is significant if ED72 is issued for mirror accounting of ED70 but not ED71.

In some grants, the utilisation of the asset may be implied. For example, a capital grant to build housing for the homeless may assume that full or close to full, utilisation – as if the asset was not utilised, there is by implication no one homeless in that area.

e) Capital Transfers – Identification of asset

The definition of capital transfer needs to consider whether the requirement to construct a non-financial asset needs to be able to identify an identified asset (e.g. the building), or can the capital transfer be just to build “roads”. This consideration needs to link to the issue raised above of dealing with capital transfers with present obligations. For example, we have federal government arrangements to grant money to local government to “build roads”. These are not specific, and can be changed by the local governments from building roads, to maintenance (that should be expensed) and so do not meet the requirement for a performance obligation. However, they may meet the definition of a capital transfer with eligible expenditure present obligations – but not the definition of specified activities as there is no refund obligation if the road is no longer used as a road (very unlikely though).

f) Capital transfers and Gifts and Donations, including Goods In-kind

The discussion seems to confuse goods in-kind and capital transfers. If goods in-kind are given (in a binding agreement with specified activities), then they should be capital transfers. Examples could be a building to be used as a school, or a piece of artwork that needs to be displayed.

AG51. Goods in-kind are tangible assets transferred to a transfer recipient in a transaction without performance obligations, but may be subject to specified activities

These need to be assessed with capital transfers:

> AG53 … If specified activities are required under the binding arrangement, a liability is recognized, which is reduced and revenue recognized, as the specified activities are completed.

Is this over the construction period, or related specified activities? One example I have is the funds were linked to a grant to build a building, and then there was a separate service arrangement. I would have treated this as being part of the one

arrangement, though I have not seen the detail of the arrangements as to whether they would have been combined under ED70 / ED71 provisions.

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?

Distinct present obligations (paragraph 80 and 81)

There is no discussion on separating the present obligations (specified activities and eligible expenditure) into distinct present obligations. I think this is a good thing given the variety of agreements, and often sub-programs of arrangements.

For reimbursable expenditure, or expenditure to be acquitted, the recognition will usually follow the expenditure recognised – which seems to be consistent with the proposed requirements.

An exception may be related to the issue I raised in Specific Matter for Comment 3 and capital transfers where I highlighted that in some agreements (were the building is required to be used for specified activities) and there is sloppy drafting requiting the whole amount of the funding to be returned if those specified activities cease – e.g. the whole of the $1 million originally funded to be returned even if the building has been used as specified for the last 15 out of an expected useful life of 20 years.

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?

Subsequent measurement of receivables

The provisions for the subsequent measurement of receivables is confusing as there are a variety of receivables under ED71. These include:

- Transfer recipient's binding arrangement asset (e.g. unbilled revenue) – Refer my response to Specific Matter for Comment 3 and funding in arrears – unbilled revenue
- A receivable that meets the definition of a financial asset under IPSAS 41
- A statutory receivable – that is a right to receive cash, but arises under a statutory (legislative) provision rather than by contract (IPSAS 41 requires a contract). Examples include taxes and levies receivable after the taxable event occurs.

The last two, the right to receive exists, and the amount due based only on the passage of time.

The first does not meet the definition of a financial asset, and should be accounted for under IPSAS 41.

Subsequent measurement of receivables that are a transfer recipient's binding arrangement asset should be based on the other provisions of ED71 – i.e. satisfaction of present obligations, and revenue constraints – similar to how contract assets are accounted for under IFRS 15 / ED70.

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?

I make few comments as I have not spent much time on this topic.

In Australia, we have had to distinguish revenue received under AASB 15 (IFRS 15) and the general income standard (AASB 1058). Australian past practice has been to not recognise present obligations for binding arrangements as defined in ED71.

Disclosures for local governments (who receive a variety of funding, and have their own taxes), using these proposals would be required to split between:
- revenue received at a point in time, or over time (with some differences of view with rates – are they at a point in time (the taxable event at the start of the financial year), or over time (as they apply to the financial year)
- and split between ED70 and ED71

Personally, I do not think users are going to be fussed whether revenue is recognised under performance obligations (ED70) or present obligations (ED71). I refer above to my comments above under Specific Matter for Comment 1 on combining the performance obligations and present obligations accounting into the one standard – subject to ED72 not going ahead as proposed.

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?

I refer above to my comments above under Specific Matter for Comment 1 on combining the performance obligations and present obligations accounting into the one standard – subject to ED72 not going ahead as proposed.

Other comments

I include comments below on the following issues:
a) Research
b) Other compulsory contributions and levies - Definition
c) Other compulsory contributions and levies – Present obligations
d) Principal vs agent
e) Taxable event – Income tax - Paragraph 94(a)
f) Property tax – Rates - Paragraph 94(f)
g) Services in-kind
h) Fines
i) Revisions to estimates
j) Portfolio basis
k) Editorial
l) Changes to IAS 37

a) Research

A number of examples refer to research as not being a performance obligation. As I explain in my response to ED70, I believe that many research funding arrangements, particularly those made on a competitive basis, are performance obligations.

b) Other compulsory contributions and levies - Definition

The heading "the taxable event for Other Compulsory Contributions and Levies" is probably in the wrong location. At the moment it is before paragraph 94. However, the definition of "Other compulsory contributions and levies" may exclude many of the taxes included in paragraph 94.

Definition

> Other compulsory contributions and levies is cash or another asset, paid or payable to public sector entities, in accordance with laws and/or regulations, established to provide revenue that is to be used in the provision of specified government programs.

In Australia, income taxes, GST, customs duty, property taxes are not linked to specified government programs – they are general taxes. Consequently, they would be excluded from the definition of "Other compulsory contributions and levies".

c) Other compulsory contributions and levies – Present obligations

ED71 needs more work on linking compulsory contributions and levies to underlying requirements of the standard. Sometimes compulsory contributions and levies can be linked to specified activities and eligible expenditure (and therefore under the present obligations provisions of ED71).

Sometimes there is not a refund obligation – as the recipient must do what is required per legislation. Sometimes not-for-profit entities (that apply IPSASs) are member organisations that raise compulsory contributions and levies – is a

constitution considered a binding obligation? Are these present obligations if there is no specific refund obligation for unspent money – there is no refund obligation as it is expected that the money be spent as required – either this financial year or in the future.

Examples of compulsory contributions and levies include:

- Marketing levies (by government created industry organisations)
- Infrastructure charges – to be spent on infrastructure activities (or represent spending that would be made on infrastructure activities) – but recipients (e.g. local governments) are not accountable for the spending.

I have not considered the interaction with social contributions (in Australia levy for the National Disability Insurance Scheme and for Medicare).

d) Principal vs agent

Paragraph 91 is confusing, as in one example the taxes are treated as principal and the other as agent, without explaining the distinguishing characteristic.

In Australia, GST is collected by the commonwealth into a GST pool and distributed to the states – the commonwealth does not retain any of the GST - would that be principal or agent under the proposals? The Australian GST (goods and services tax) replaces state sales taxes, and is collected by the commonwealth using the same system to collect commonwealth employee pay as you earn tax, and company income tax.

e) Taxable event – Income tax - Paragraph 94(a)

I disagree that for income tax the taxable event is each transaction. For income tax, the taxable event (in Australia) is the end of the income tax year, where the tax payable is calculated as assessable income (for the year) less allowable deductions (for the year) and other rebates and charges (for the year). There is no liability for income tax prior to the end of the income tax year.

Income tax contrasts to the goods and services tax where the liability arises on each transaction, and is payable monthly, quarterly, yearly.

f) Property tax – Rates - Paragraph 94(f)

These provisions are confusing by referring to the period on which the tax is levied. In Australia, it is common to bill rates every 3 months or 6 months. However, the technical levying is undertaken at the start of the financial year. So, while the taxable event is the start of the financial year, the billing may be seen to some people as when the tax is levied.

g) Services in-kind

In Queensland, below market payments are considered "volunteer" services or services in kind. ED71 seems to only allow for situations where services are given for NO consideration.

The provisions should clarify that classes of transactions can be recognised at fair value. For example in Australia, if government departments would otherwise have

purchased the good or service, the amount is recognised at fair value (if fair vale can be measured reliably). So, income is “grossed-up” to recognise the below-market value component, and the expense is “grossed-up” to fair value.

h) Fines

ED71 should clarify whether the recognition of the fine should be the ‘fair value’ the amount you think will be collectible (face value less defaults – e.g. address not valid, socio-economic reasons).

In practice, because the fines processing system is based on gross, not net, the financial statements should be able to disclose gross fines levied, less defaults, and the net amount recognised on the face of the income statement.

i) Revisions to estimates

Paragraph 99 should make explicit that revisions to estimates should be made to revenue.

j) Portfolio basis

Does ED71 allow the use of the portfolio basis? E.g. statistical models.
Paragraph 100 (estimates of death duties) does not seem consistent with the need to use best estimate, and the application of a portfolio basis.

k) Editorial

5. Revenue transactions without performance obligations are transactions where there is no requirement for a transfer recipient to transfer any goods or services to a transfer provider or a third-party beneficiary.

I disagree. It is not that there are no requirements to transfer goods and services – it is that there is no sufficiently specific requirement.

Also need to review paragraph AG27 and how specified activity is expressed, as that paragraph refers to there being no requirement.

l) Changes to IAS 37

I think the references in BC29 are out of date.
BC29 … The IPSASB is also cognizant of the amendments proposed for IAS 37 (to be retitled *Non-financial Liabilities*), on which IPSAS 19 is based, and will monitor, and in due course consider, its response to any developments in IAS 37.

There was a previous project (exposure draft in 2005 and 2010) that was halted in 2015.

https://www.ifrs.org/projects/2010/liabilities-ias-37/
Archive website
http://archive.ifrs.org/Current-Projects/IASB-Projects/Liabilities/Pages/Liabilities.aspx

Current research project for targeted improvements is:
https://www.ifrs.org/projects/work-plan/provisions/