MALAYSIAN INSTITUTE OF ACCOUNTANTS

13 November 2020

Mr John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2
CANADA

Dear John,

EXPOSURE DRAFT 72 *TRANSFER EXPENSES*

The Malaysian Institute of Accountants ("MIA") is pleased to provide comments on the International Public Sector Accounting Standards Board ("IPSASB") Exposure Draft (ED) 72 *Transfer Expenses* as attached in Appendix 1 to this letter.

We hope our comments would contribute to the IPSASB's deliberation in finalising the matter. If you have any queries or require clarification of this submission, please contact Rasmimi Ramli, Deputy Executive Director of Digital Economy, Reporting and Risk at +603 2722 9277 or by email at rasmimi@mia.org.my.

Yours sincerely,
MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer

Specific Matter for Comments

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?**
We agree that the scope of this [draft] Standard is limited to transfer expenses as defined in paragraph 8. However, we believe that the scope of this [draft] Standard could be further improved. We noted that the scope of the ED covers a subset of both ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. The scope of the ED should draw a clear line especially when it mirrors transaction from revenue with performance obligation. From our understanding, transfer expense only exists when the transaction from revenue with performance obligation involves third-party beneficiary. Accordingly, we propose that the Application Guide 6 be amended as follows: “This [draft] Standard defines a transfer expense as an expense arising from a transaction, other than taxes, in which an entity (~~the~~ including a transfer provider) provides a good or service to another entity (the transfer recipient, which may be a public sector entity, a not-for-profit organization, an individual or another entity) without directly receiving any good or service in return...” We also wish to highlight that the term “transfer provider” only appears in ED 71 but not ED 70. Thus, this may lead to confusion that ED 72 only deals with ED 71 and not ED 70 (third-party beneficiary).
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?**
We agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinctions for revenue transactions proposed in ED 70 and ED 71.

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?**
We agree with the above proposal. We also wish that IPSASB to further explain the term "monitors" (i.e. whether the transfer provider should establish a monitoring mechanism on its own or is it sufficient for the transfer recipient to provide progress/achievement report regularly to the transfer provider).
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?**
We generally agree with the recognition and measurement requirements for transfer expenses with performance obligations. However, we foresee that there will be challenges and limitations in implementing the requirements which will be further explained in Specific Matter for Comment 5.
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.**
We foresee that for the implementation, a proper monitoring mechanism should be in place for the transfer expenses with performance obligations to be recognised. This would require resources in the form of system and/or human capital to cater for this. In addition, the financial position may be distorted as the accounting treatment proposed would require transfer provider to recognise asset and liability first. This will then result in a

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delay in recognition of expenses as the transfer provider needs to wait for the performance obligations to be satisfied.
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?**
We agree with the recognition requirement for transfer expenses without performance 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 as 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?**
We believe that this lack of symmetry is only appropriate if it relates to different economic entities. Paragraph 7 of IPSAS 1, *Presentation of Financial Statements* defines that an economic entity is controlling entity and its controlled entities. In the Malaysian context, both transfer provider and transfer recipient are from within the same economic entity. Thus, this lack of symmetry may not be appropriate because it will lead to mismatch of timing which may cause confusion and complexity for consolidation purpose.

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?**
We do not agree with the proposal that the transfer provider needs to consider whether it has a present obligation to transfer resources, and should recognise a liability, prior to the appropriation being authorised. Paragraph 7 of ED 70 states that "A <u>binding arrangement</u> is an arrangement that confers both enforceable rights and obligations on both parties to the arrangement. A contract is a type of binding arrangement". In our jurisdiction, arrangement prior to appropriations being approved does not mean that both parties have enforceable rights and obligations to the arrangement which does not fulfill the definition of a binding arrangement as specified above.
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?**
We agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses. The IPSASB should consider the benefits of the disclosures to users and the costs of compiling and reporting such information.

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