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Conseil de normalisation des comptes publics

Le Président

Paris, October 20, 2020

Mr Ross Smith
Technical director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
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Re: Response to Exposure Draft 72, *Transfer Expenses*

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Exposure Draft 72, *Transfer Expenses* published in February 2020 (ED72).

While we commend the IPSASB for addressing the accounting for expenses in the public sector, we would like to point out several key issues that we believe the proposals do not sufficiently address. First of all, we do not quite understand why the Public Sector Performance Obligation Approach should be limited to transfer expenses; further communication as to the issues that would arise if applied to other expenses as well as the scope of any subsequent work to perform to address those other expenses would be welcome. We also observe that this approach does not ensure symmetry between the recognition of revenue and that of expenses other than transfer expenses. In addition, we are of the opinion that the main implementation difficulty in the "with performance obligations" approach resides in the provider having to rely on the recipient to find out when the performance satisfaction was satisfied.

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We however find the paragraphs on appropriations a very positive addition to the future standard. Those paragraphs actually adequately feature the constraint on budget that has to be voted on before expenditure are authorised in the public sector, and provide a response that should lead to better financial information.

Responses to the detailed questions set out in the ED are presented in the appendix.

Yours sincerely,

Michel Prada

APPENDIX

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?

1. Scope of the draft standard

We note that paragraphs 3 and AG5 of the draft standard clearly limit the scope to transfer expenses, excluding expenses arising from exchange transactions. We do not quite agree with this limitation.

First of all, we question why transfer expenses as defined in ED72 cover both expenses arising from transactions with and without performance obligations, while two different EDs deal with revenue from transactions with performance obligations (ED70) and from transactions without performance obligations (ED71). We believe that this might create an overlap and constituents are confused as to what the term “transfer” refers to. Therefore, we would recommend that as a minimum, the Bases for conclusions should assess more clearly the relationship between the terms “transfer” in ED71 and “transfer expenses” in ED72.

As a matter of fact, we do not understand why the Public Sector Performance Obligation Approach in ED72 should be limited to transfer expenses. We observe that this approach does not ensure symmetry between the recognition of revenue and that of expenses other than transfer expenses. An alternative could be that the scope of ED72 is expanded to cover expenses, other than transfer expenses, arising from transactions with performance obligations and transfer expenses arising from transactions without performance obligations. We believe that such alternative would only require the addition of some paragraphs reflecting situations where the transfer of goods or services would be directly between the provider and the recipient in the section on the Public Sector Performance Obligation Approach. Because it is more comprehensive, we believe that that alternative would be a better way forward than the current proposal.

If the Board were to confirm the proposed scope, again with respect to paragraphs 3 and AG5 of the draft standard, we think that it would be appropriate to state which IPSAS constituents should turn to for those transactions that are outside the scope of the draft standard, else clearly mention that there are none dedicated specifically to the accounting treatment for expenses arising from “exchange transactions”.

Additionally, in our jurisdiction, we observe that our constituents need to understand in what transfer expenses are different from social benefits and from collective and individual services. To enhance communication on the proposals and help preparers find their way around the various standards that deal with expenses, we would encourage the Board to add introductory remarks in the core text of the future standard.

In that sense, we find that the table on p. 72 seems particularly appropriate and enlightening and that the core text of the draft standard would highly benefit from inserting the table in the future standard. Minor modifications would be required to account for the publication of IPSAS 19 revised on collective and individual services. The table could also usefully mention the relevant IPSASs or IFRSs that constituents should turn to for adequate accounting treatments of transactions that are not in the scope of the future standard, and more specifically state when there is no IPSAS (for instance on insurance contracts or on contracts for goods and services).

2. Definition of transfer expenses

With respect to the definition of transfer expenses, we would like to comment on the inclusion of the reference to taxes. While we fully understand the need for consistency as explained in BC13, we believe that taxes viewed from the revenue side are different to those viewed from the side of an entity that would have to pay taxes. This is because on the one hand, revenue from taxes collected refers to the exercise of the sovereign power, whereas on the other hand, taxes paid relate to entities that operate on a profit basis. We think that there are two ways forward to deal with this issue:

- Either the Board considers that transfers (revenue and expenses) are different from taxes in the wake of IPSAS 23, then, for the sake of consistency, there is no way transfer expenses may cover taxes. As a consequence, logically, the definition of transfer expenses cannot exclude taxes; or
- The Board considers that taxes are transfers in nature because of their non-exchange feature, and the draft standard should address the accounting treatment for tax expenses.

Referring to the exclusion of taxes in the definition of transfer expense is confusing at best, if not completely misleading on the objective of ED72; therefore, we would recommend to delete the exclusion.

In addition, we would like to take the opportunity of responding to specific matter for comment 3 to share some comments on the proposed definitions. As for ED71, the definition of “transfer provider’s binding arrangement liability” should contain “present” right before “obligation”, that is, to be in line with the general definition of a liability. And again, we would question the need for two specific definitions when we believe that the general definitions of assets and liabilities would work.

Another miscellaneous comment includes the following: in paragraph 6, because IPSAS 1 sets out presentation requirements but not accounting requirements, we think that the last sentence should rather read:

> "An entity shall ~~account for~~ present contributions from owners and distributions to owners in accordance with IPSAS 1."

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?

Notwithstanding the fact that present obligations from the recipient's perspective may be frequent in transactions giving rise to expenses, we are of the view that in the public sector most transactions giving rise to expenses are transactions without performance obligations.

Therefore, from a practical viewpoint in the context of the public sector, we think that the distinction between transfer expenses with performance obligations and transfer expenses without performance obligations is artificial and rather irrelevant.

In line with the above comments, we believe that it is highly critical that transfer expenses arising from transactions without performance obligations should be given more prominence, all the more that those transactions represent the vast majority of transactions in the public sector.

With respect to paragraph 2, we would strongly recommend that for a better communication with public sector constituents and in the public interest, subsections (a) and (b) should be swapped. Indeed, as noted above, transfers without performance obligations are far more significant in the public sector than transfers with performance obligations.

Additionally, we would suggest to change the wording in subsection (a) as follows to better align the objective with the definition of transfer provider in ED71:

> "2 (a) For transfer expenses where the transfer recipient is required to satisfy performance obligations by transferring goods or services to a third-party beneficiary, to depict the transfer of resources in an amount that reflects the consideration which the transfer provider expects to be obligated to pay to allow/finance the transfer of goods or services to the third-party beneficiary ~~in exchange for those goods or services~~; and".

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?

From the comments we gathered from our constituents, we understand that monitoring the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement would most often prove impossible. As a consequence, most transfer expenses would be accounted for as transfer expenses arising from transactions without performance obligations.

In that sense we question the relevance of complex requirements that are likely to be discarded.

An alternative could be to put forward the general accounting treatment for transfer expenses arising from transactions without performance obligations and, when transactions meet the specific criteria in paragraph 13, and only then, bring in the Public Sector Performance Obligation Approach. To the best of our recollection, this would mirror the approach in IPSAS 42, *Social Benefits*, with the general approach and the insurance approach relevant only for very specific transactions that meet the criteria in paragraph 28.

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?

Notwithstanding our earlier comments, we believe that the proposed recognition and measurement requirements for transfer expenses arising from transactions with performance obligations are correct from a technical standpoint. However, we wonder to what extent the accounting solution would be different in a situation where the transfer expenses arise from a transaction without performance obligations, but with a present obligation of the transfer recipient.

Overall, we believe that the draft standard's requirements break down in too many possibilities that may in the end come to one same accounting solution.

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.

In line with our above comments, the recognition and measurement requirements indeed seem unduly complex, all the more in the public sector. In addition, we are concerned that it may not provide better quality information compared to the cost of applying the requirements.

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 observe that measurement of the present obligation of the transfer provider proposed in paragraph 103 is at best estimate, which is consistent with the requirements in IPSAS 19, *Provisions, Contingent Assets and Contingent Liabilities*.

Also, with respect to paragraph 102, the measurement of the expense at the date the provider transfers the resource at the carrying amount of the resources given up is consistent with the measurement requirements for transactions that have no commercial substance.

We would therefore agree on the proposal for the sake of consistency.

In addition, with respect to present obligations, we would appreciate some more detailed guidance as to the effect of present obligations of the transfer recipient, as opposed, on the one hand, to performance obligations and as opposed, on the other hand, to present obligations of the transfer provider.

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?

In line with our last comment in SMC 6, we would recommend that further guidance should be provided to clarify whether a present obligation of the transfer recipient would have to be taken into account to determine the accounting treatment.

Though practically probably even more difficult to monitor than the satisfaction of performance obligations, we wonder to what extent the capacity of the transfer provider to monitor present obligations of the transfer recipient would have an effect on the accounting solution. Some more guidance as to the reason for the lack of symmetry, beyond practical difficulties, would be welcome.

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 agree with the proposal, and we commend the IPSAS Board for introducing the discussion on the effect of appropriations on the accounting treatment. This is a specificity of the public sector that needs to be addressed as such, as preparers face the situation fairly frequently.

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 would caution the IPSAS Board to not ask for too much information, as the notes to the financial statements should remain focused on significant elements of the primary financial statements.