October 19, 2020

Mr John Stanford

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street, 4th floor

Toronto

Ontario M5V 3H2

CANADA

RE: Comments on ED 72, *Transfer Expenses*

Dear Mr. Stanford,

We welcome the opportunity to comment on Exposure Draft 72, *Transfer Expenses*. Our responses to the specific questions raised in the ED are set out in Appendix A.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Mr. Abdullah Alhomaida via email at:

a.alhomaida.kfa@mof.gov.sa.

Yours sincerely,

Accrual Accounting Center

The Ministry of Finance, Saudi Arabia

Appendix A: Responses to Specific Questions in ED 72

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?

[Our Comments] We agree that the scope of this draft Standard is clear.

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?

[Our Comments] 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 distinction for revenue transactions proposed in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*.

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?

[Our Comments] We agree with the proposal, provided that a similar requirement with respect to "monitoring the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement by the transfer provider" is incorporated in ED 70 and ED 71. This is to ensure that inter-government transfers are accounted for consistently in the financial statements of the transfer provider and transfer recipient.

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?

[Our Comments] We agree with the recognition and measurement requirements for transfer expenses with performance obligations.

<u>Specific Matter for Comment 5:</u>

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.

[Our Comments] Practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations may not be easily predicted at this stage..

<u>Specific Matter for Comment 6:</u>

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?

[Our Comments] We agree with the recognition and measurement requirements for transfer expenses without performance obligations.

<u>Specific Matter for Comment 7:</u>

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?

[Our Comments] This lack of symmetry is not recommended. Given the magnitude of inter-government transfers, care should be taken to ensure that they are accounted for consistently in the financial statements of the transfer provider and transfer recipient.

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?

[Our Comments] We agree with the proposal 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.

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?

[Our Comments] We agree that the disclosure requirements in this draft Standard are appropriate to provide users with sufficient, reliable, and relevant information about transfer expenses.