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Ross Smith
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International Federation of Accountants
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Toronto, ONTARIO
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Dear Mr. Smith:

SUBJECT: Exposure Draft (ED) 72: *Transfer Expenses*

Thank you for the opportunity to comment on the Exposure Draft (ED) 72: *Transfer Expenses* issued in February 2020.

The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). The Government of Canada is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS are regarded as an important secondary source of generally accepted accounting principles.

Our responses to the specific matters for comment on ED 72 are included in the attached appendix.

We thank you again for providing the opportunity to comment on this Exposure Draft. If you require further information, please do not hesitate to contact either Blair Kennedy at blair.kennedy@tbs-sct.gc.ca (613-404-2996) or myself at diane.peressini@tbs-sct.gc.ca (613-369-3107).

Yours sincerely,

Diane Peressini
Executive Director,
Government Accounting Policy and Reporting

c.c.: Roch Huppé, Comptroller General of Canada
Roger Ermuth, Assistant Comptroller General, Financial Management

Canada

APPENDIX

Responses to Specific Matters for Comment

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?

Response:
We agree that it is generally clear which transactions fall within the scope of the standard and that the rationale is explained clearly in BC4-BC15.

However, we find that the overlap of definitions between ED 70 *Revenue with Performance Obligations*, ED 71 *Revenue without Performance Obligations* and ED 72 *Transfer Expenses* may cause confusion:

- Transfer provider: Transfer expense arrangements with performance obligations mirror those in ED 70. However, the "transfer provider" in ED 72 is referred to as the "purchaser" in ED 70.

- Transfer recipient: The definition of transfer recipient is provided in ED 71 *Revenue without Performance Obligations* as "an entity that receives a good, service, or other asset from another entity without directly providing any good, service, or other asset to that entity". However, ED 72 uses the term "transfer recipient" to refer to both of the following parties:
    - For transfers with performance obligations: the party that provides goods or services to a third-party beneficiary in return for consideration.
    - For transfers without performance obligations: the party ultimately benefitting from the transfer without providing goods or services in return.

  While we understand that, in both instances, the transfer recipient does not directly provide goods or services back to the transfer provider, having these two distinct types of transfer recipients may cause confusion. The transfer recipient in transactions with performance obligations is a supplier of goods or services, although these are provided to a third party rather than to the transfer provider.

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?

Response:
We agree with the proposals to distinguish transfer expenses with performance obligations and those 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?

Response:

We agree that the transfer provider must be able to monitor the satisfaction of performance obligations by the transfer recipient throughout the term of the arrangement in order to apply the performance obligation approach.

However, as written, the guidance implies that the transfer provider has a choice to monitor the satisfaction of performance obligations. In our opinion, the guidance should require that the ability to monitor the satisfaction of performance obligations should be specified in the terms of the arrangement, and be a question of fact rather than a choice. Additional guidance should be provided to help entities assess the type of monitoring that is acceptable to satisfy this requirement. When the recipient does not comply with the monitoring mechanism in the arrangement, the transfer provider would need to apply professional judgement in determining whether the performance obligation approach can still be applied.

When the transfer provider cannot monitor the satisfaction of performance obligations, the binding arrangement asset or binding arrangement liability should not be recognized because it is not measurable, and therefore, we agree that such transactions should be accounted for as transfer expenses without performance obligations.

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??

Response:
We partially agree with these recognition and measurement proposals.

In our opinion, a transfer provider should initially recognize an asset for the right to have the transfer recipient transfer goods or services to the third-party beneficiaries only when the funds have been provided in advance, which constitutes performance under the arrangement. Consistent with the accounting treatment for executory contracts, there should be no accounting recognition until one of the parties to the arrangement has performed. Consequently, we disagree with Illustrative Example IE206, case B, in which a transfer provider's binding arrangement asset and a payable are established prior to any performance by either of the parties under the arrangement.

When funds are provided in advance, we agree that the transfer provider obtains service potential which should trigger recognition of an asset until the performance obligations under the arrangement are satisfied. The fact that the goods and services are to be delivered to a third-party beneficiary rather than to the transfer provider should not affect the pattern of expense recognition because the transfer provider retains control over the goods or services through the terms of the arrangement until they are transferred to the beneficiary. The substance of the transaction is the same as the transfer provider obtaining the goods and services directly and then transferring them to the third-party beneficiary. The asset represents the right to have the goods or services under the arrangement provided as directed in the agreement.

We agree that transfer expense should be recognized by the transfer provider as the goods or services are provided to the third party beneficiary using the performance obligation approach outlined in the ED, as long as the transfer provider has the ability to monitor the satisfaction of performance obligations.

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.

Response:
We are not aware of practical difficulties that may arise other than the ability to monitor the satisfaction of performance obligations.

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?

Response:
We agree with these proposed recognition and measurement requirements.

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?*

Response:
We agree that this lack of symmetry is appropriate because the primary consideration from the transfer provider's perspective is whether it has lost control of the resources transferred and/or whether it has a present obligation related to those resources. We agree with the explanations provided in BC 48-59.

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?

Response:
We partially agree.

Although we agree that there may be circumstances in which a liability should be recognized prior to the appropriation being authorized, and that this depends on whether a transfer provider has a present obligation to make the payments, we do not agree with the guidance in AG 100(b) with respect to the situations in which such a liability would arise.

The last sentence of AG 100(b) states that the transfer provider may lose its discretion to avoid payment when it enters into a binding arrangement with a recipient that includes the subject to appropriations clause. This statement is cause for concern when considering multi-year transfers, because entering into such an agreement is generally not the point at which the transfer provider has a present obligation to make payments that are subject to approval of appropriations in future years.

The proposed guidance requires consideration of when the recipient has an enforceable right to the payment. For a multi-year transfer with performance obligations, the transfer recipient does not have an enforceable right to the future payments until it has performed under the agreement. When there is no performance required for a transfer recipient to be eligible for a transfer, the subject to appropriations clause has substance because it informs the recipient that it should not have an expectation of receiving the transfer until the appropriations have been approved.

In our opinion, past practice or published policies would not result in the transfer provider having a present obligation upon entering an agreement that includes the subject to appropriations clause. This is because government transfers are by nature discretionary, and the rationale for including the subject to appropriations clause is to provide flexibility to the transfer provider to direct its resources as it determines most appropriate in future years. Consequently, only when a recipient has acted under the agreement with a valid expectation of receiving the future transfers would the recipient have an enforceable right to the transfer.

In Illustrative Example 35, Case B indicates that the subject to appropriations clause does not have substance because authorizing legislation requires the national government to invest in measures to reduce pollution, and the binding arrangement is a firm commitment to undertake these measures through local governments. We disagree with this conclusion. The national government's commitment to invest in pollution measures as a result of authorizing legislation does not result in a present obligation as the local government does not have an enforceable right to the funds until it has incurred, or irrevocably committed itself to incurring, expenses for which it has a valid expectation of reimbursement under a binding arrangement between the parties.

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?

Response:

We are concerned about the extent of the disclosures proposed given the resulting complexity in record keeping and reporting. Although the proposed disclosures are based on those in IFRS 15, the IPSASB may want to consider whether public sector disclosures should be less than those in the private sector given the extent of other types of reporting by governments outside of financial statements. Extensive disclosure requirements can significantly expand the financial statements with too much detailed information, thereby impairing their understandability and obscuring the most relevant information.

We do not agree with paragraph 150 which states that a contingent liability may arise when a transfer provider has not recognized an expense/liability prior to an appropriation being authorized. A contingent liability arises when the future events that can result in a liability are not within the entity's control. This is not the case for the voting of appropriations by a government.