



KOREA INSTITUTE OF PUBLIC FINANCE

Government Accounting and Finance Statistics Center

IPSASB Exposure Drafts

*Transfer Expenses and Revenue*

# ***Comments on the Exposure Draft 71, Revenue without Performance Obligations***

October 30, 2020

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Ross Smith  
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International Public Sector Accounting Standards Board  
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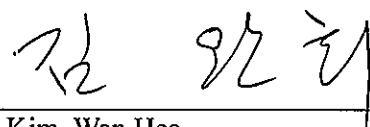
**Re: The comments on the Exposure Draft 71,  
*Revenue without Performance Obligations***

Dear Mr. Smith,

The Government Accounting and Finance Statistics Center (hereinafter referred to as the “GAFSC”) at Korea Institute of Public Finance would like to express our sincere gratitude for the opportunity to response to Exposure Draft 71, Revenue without Performance Obligations issued by the International Public Sector Accounting Standards Board.

The comments have been prepared and reviewed by the staff and the Government Accounting Advisory Committee of the GAFSC, and are available in the following pages. Please feel free to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staff of the GAFSC, Grace Choi (gracechoi@kipf.re.kr).

Sincerely,



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Kim, Wan Hee  
Chief Director of GAFSC at KIPF

## **[Specific Matter for Comment 1]**

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?

## **[GAFSC Comments]**

Agree with the proposed criteria of IPSASB. In addition, separately illustrating the examples of specified activities that give rise to present obligations, as well as, eligible expenditures that give rise to present obligation through providing additional guidance in the form of IE could further enhance the understanding of specified activity and eligible expenditure.

## [Additional Comment ①]

ED 71 distinctively defines specified activity and eligible expenditure, and provides the prominent examples of each term through AG as follows:

Classification	Specified Activity	Eligible Expenditure
<b>Definitions</b>	An action in a binding arrangement that must be completed by a transfer recipient (Paragraph 10)	An outflow of resources incurred in accordance with the requirements set out in a binding arrangement (Paragraph 10)
<b>Prominent Example</b>	Use of the funding to conduct research and development on the basis of a detailed project plan (AG27)	Funding spent on promoting the university overseas, including marketing manager's salary, travel expenses and any promotional materials used (AG25)

According to BC12-14, the present obligations in enforceable transactions would either be a (a) specified activity or (b) requirement to incur eligible expenditure. On the other hand, paragraph 57 indicates that a present obligation is satisfied when (or as) the transfer recipient undertakes 'the specified activities' and has no further enforceable duties or acts to perform. With the difference, it can be interpreted in a way that the requirement to incur eligible expenditure influences on whether a binding arrangement has present obligation, but not for determining whether those present obligations are satisfied.

If IPSASB's intention is in line with paragraph 57 that a present obligation can only be satisfied when (or as) the transfer recipient undertakes the specified activities, it would have been unhelpful to enhance the understanding of the users to separately develop the definitions and AGs for eligible expenditure and specified activity.

On the contrary, if it is unintentionally omitted from paragraph 57 that a present obligation can be satisfied when eligible expenditure incurs, it should be included in the paragraph 57. However, IPSASB should consider the fact that in many cases, the binding arrangements of public sector entities have both a specified activity and an eligible expenditure and thus, it might be difficult to clearly distinguish the cause of present obligation.

### **[Additional Comment ②]**

There is a need to additionally provide AGs and IEs to help distinguish performance obligation and present obligation in ED 71 for it is difficult to distinguish them in practice.

For the case of public hospital receiving funding from the government to pay the doctors, who provide medical services as specified in the binding arrangement, as stated in the binding arrangement, it can be interpreted that the public hospital has present obligation for eligible expenditure as described in AG25(ED 71), but it can also be seen as the hospital having performance obligation that the hospital should provide a medical care to the patients who are its third-party beneficiaries.

In addition, the following is an example of a case for a provincial government receiving funding from a national government to improve and maintain its mass transit system and the transaction has been classified as a revenue transaction with present obligation. That is because through the binding arrangement with national government, the provincial government has the obligation to spend the

funding for modernizing the existing railroad, etc. Nonetheless, when considering the citizens as the third-party beneficiary of the service(development for mass transit system) then there is a possibility of perceiving this transaction as a revenue transaction with performance obligations.

In order to solve the issue, the following refinement seem to be helpful to be made in ED 70 and ED 71.

First, the definition of a third-party beneficiary in paragraph 7 should be aided through providing additional explanations in the AG on whether it means the specified third-party beneficiary in a binding arrangement or it is not limited to the specification.

Second, it is important to provide IEs that highlight the difference between performance obligation and present obligation that is applicable to the practice(especially on the present obligation arise from eligible expenditure).

## **[Specified Matter for Comment 2]**

The flowchart that follows paragraphs 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?

## **[GAFSC Comment]**

Despite that fact that taxes, which include other compulsory contributions and levies, are a major type of revenue without performance obligations in ED 71, the flowchart does not take them into consideration. Hence it is advisable that the process to recognize tax revenue should be included in the flowchart.

## **[Additional Comment]**

As mentioned in SMC 7 below, the IPSASB is trying to set out the principles and requirements of ED 71 as consistent with that of ED 72, however unlike ED 71, ED 72 does not provide the flowchart that is helpful to find relevant paragraphs that can be applicable to transfer expenses. Considering the fact that unlike ED 70, ED 71 and ED 72 deal with various transaction types of revenues and expenses, providing the flowchart in ED 72 will be helpful for the Standard users to determine the principles and requirements applicable to the transactions of transfer expenses.

- Does the outflow of resource belong to transfer expenses?(Ex: Whether it belongs to distributions to owners, etc.)
- Did the transaction arise from the binding arrangement?

- Is there performance obligation imposed on the transfer recipient?
- Is there present obligation to transfer resources to the transfer provider?



### **[Specified Matter for Comment 3]**

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?

### **[GAFSC Comments]**

As ED 71 indicated in the SMC 1, the need for revision depends on the decision of whether the present obligation is solely satisfied by performing the specified activity or the satisfaction happens together with the incurrence of eligible expenditure.

### **[Additional Comment]**

Paragraphs 54 and 57 repeatedly defined the recognition criteria of the revenue with present obligation. Unless the following paragraphs will be applied for different cases of revenue recognition or supplement the explanation for the criteria for recognition of revenue, there is a need to integrate them to avoid unnecessary repetition.

- 54. When (or as) a transfer recipient satisfies a present obligation recognized as a liability in respect of an inflow of resources from a transaction without performance obligations recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.
- 55. When a transfer recipient recognizes an increase in net assets as a result of a transaction without performance obligations and there are no present obligations, it recognizes revenue. If it has recognized a liability in respect of the inflow of resources arising from the transaction without performance obligations, when the liability is subsequently reduced, because a present obligation is satisfied, it recognizes revenue. If an inflow of resources satisfies the definition of contributions from owners, it is not recognized as a liability or revenue.
- 56. The timing of revenue recognition is determined by the nature of the requirements in a binding arrangement and their settlement. For example, if a binding arrangement has present obligations, the transfer recipient will recognize revenue when (or as) those present obligations are satisfied.
- 57. A transfer recipient shall recognize revenue without performance obligations when (or as) the transfer recipient satisfies the present obligation. A present obligation is satisfied when (or as) the transfer recipient undertakes the specified activities and has no further enforceable duties or acts to perform.

#### **[Specific Matter for Comment 4]**

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?

**[GAFSC Comments] No comment.**

### **[Specific Matter for Comment 5]**

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?

**[GAFSC Comments] No comment.**

## **[Specific Matter for Comment 6]**

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?

## **[GAFSC Comments]**

When it comes to taxes (including other compulsory contributions and levies), especially the type that government and public sector entities determine the amounts of taxes through notification, in other words, taxes with compliance assessments, the information of the imposed amount of taxpayer has a crucial meaning. However, paragraphs 131 and 132 only require to disclose the amount of revenue from transactions without performance obligations recognized during the period regarding the taxes and other compulsory contributions and levies. Hereupon, information on the imposed amount by major classes of taxes and other compulsory contributions and levies should be additionally provided.

## **[Specific Matter for Comment 7]**

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?

**[GAFSC Comments] No comment.**