International Public Sector Accounting Standards Board
Mr Ian Carruthers, IPSASB Chair
and Mr Ross Smith, IPSASB Program and Technical Director
277 Wellington Street West
Toronto, Ontario M5V 3H2
Canada

E-mail: ian@iancarruthers.org, RossSmith@ipsasb.org

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Dear Mr Carruthers, dear Mr Smith,

Exposure Draft 72 'Transfer Expenses'

We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on Exposure Draft 72 'Transfer Expenses' on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Exposure Draft. "PricewaterhouseCoopers" or "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency and transparency of public sector financial reporting worldwide.

Exposure Draft 72 'Transfer Expenses' provides recognition and measurement requirements applicable to entities transferring resources in non-exchange transactions. ED 72 is particularly welcome as it will fill one of the most important remaining gaps in the suite of IPSAS standards by providing accounting guidance on non-exchange (i.e. transfer) expenses, which represent major transaction flows in the public sector. We note however that recognition of transfer expenses will not in all cases coincide with recognition of revenue from the equivalent revenue transactions.

The subject-matter is complex. We therefore strongly recommend providing sufficient practical guidance and illustrative examples in order to further enhance consistency in application of the proposed approaches.

If you would like to discuss any of these points in more detail, please contact Henry Daubeney (henry.daubeney@pwc.com) or Patrice Schumesch (patrice.schumesch@pwc.com).

Yours sincerely,

PricewaterhouseCoopers

PricewaterhouseCoopers

Responses to the questions in IPSASB's Exposure Draft 72 'Transfer Expenses'

- **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?

The IPSASB agreed to adopt the term transfer expenses as the term transfers had previously been used in IPSAS 23, 'Revenue from Non-Exchange Transactions (Taxes and Transfers)', where the term transfers referred to inflows (i.e., revenue) only. In IPSAS 23, the term transfers excludes taxes, and the IPSASB agreed to exclude taxes from the definition of transfer expenses for consistency. We point out that ED 71 now includes taxes into the scope of revenue without performance obligations [draft] Standard. So, the arguments put forward by the IPSASB in BC 13 might no longer apply. We suggest that the IPSASB revises the documentation of the arguments used to explain the exclusion of taxes from the scope of ED 72.

We are of the opinion that it may be difficult to separate elements of a binding arrangement that is partially in scope of ED 72 and partially not. Therefore, we suggest that the IPSASB includes further guidance on the matter.

We understand that the IPSASB specifically considered research grants and noted that where the grantee retained the intellectual property resulting from the research, such grants would be covered by the definition of transfers. Where the intellectual property passed to the grantor, such grants would not be covered by the definition of transfers. The IPSASB noted in BC 9 that this was consistent with the approach taken in the statistical reporting frameworks. Consequently, the IPSASB agreed that no specific requirements in respect of research grants were required.
In our view, the legal transfer of the intellectual property would not in all cases reflect the substance of the transaction, especially in the situations where the transfer of legal title is a protective right and only applies as a result of the research project failing to achieve its objectives.

We believe that the board should collect more information from the constituents about the common types of research grants and the current accounting practices, and to reconsider its preliminary conclusions scoping in and out the transactions depending on the transfer of the legal title to the intellectual property. To achieve consistent accounting for research grants, additional guidance for the common types of research grants could be needed.

- **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 IPSASB's proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations. However, we believe that the distinction between transfer expenses with performance obligations and transfer expenses without performance obligations is difficult in practice, especially when the transfers involve third parties.

Moreover, despite the distinction made between transfer expenses with performance obligations and transfer expenses without performance obligations, there is a lack of symmetry between transfer expenses without performance obligations and recognition of revenue by the transfer recipient who has present obligations that are not performance obligations. Overall, the conceptual merits of this lack of symmetry in the recognition of assets and liabilities should be better explained by the IPSASB, with reference to the definitions of assets and liabilities in the IPSAS conceptual framework.

- **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 support the statement that without proper monitoring, the transfer provider would not have reliable information about when a transfer expense arises. Without such information, the recognition of an expense could be inappropriately delayed.

However, the assessment of the condition referred to above could provide an opportunity for the transfer provider to decide whether to apply the accounting requirements for binding arrangements with performance obligations or not. In fact, the criteria listed in ED 72 could give rise to an unintended choice of how to recognise and measure transfer expense transactions, and also increase the risk of avoidance of the complexity of the five-step approach.

We identified potential practical issues with the proposal. We note that transfer providers and auditors might have differing views about whether a provider has sufficient information (about the satisfaction of obligations by the recipient) to apply the Public Sector Performance Obligation Approach (PSPOA). Besides, the question arises about whose perspective is used when determining that a transfer recipient has satisfied a performance obligation (para 33 of ED 72). The transfer provider would most likely have to do this based on information received from the transfer recipient, as the provider would be unlikely to collect information from a number of third-party beneficiaries.

In order to increase comparability, the IPSASB could reconsider the criteria or provide additional guidance in order to limit the opportunities of "cherry picking" between the proposed accounting models on a case by case basis.

- **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 agree with the proposal in this [draft] Standard for the recognition and measurement requirements for transfer expenses with performance obligations. We support IPSASB's proposal to apply the PSPOA for grants, contributions, and other transfers that contain performance obligations.

However, the five-step revenue recognition approach should be reconfigured from the perspective of the resource provider. For example, the recognition threshold for variable consideration should be aligned with the IPSASB conceptual framework rather than with the requirements of ED 70 (i.e. requiring "probable" instead of "highly probable" inflows).

- **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 consider that there could be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, specifically related to the allocation of total consideration to performance obligations in case there are multiple performance obligations in the binding arrangement.

We also believe that the currently existing practical difficulties when accounting for multi-year grants and therefore diverging practices might not be resolved if ED 72 is finalised in its current form. It is not clear to us, for example, when, applying the guidance in ED 72, a transfer provider has to recognise a liability for an obligation to provide funding to an entity for multiple periods (for example when the provider can withdraw the funding if certain circumstances or conditions are not met).

We note that Example 34 Agreement for a Series of Transfers (paragraphs IE180–IE84) indicates that a transfer provider would recognise an upfront liability for all payments within a multi-year agreement if there is an unconditional obligation. However, we think that this needs to be clearer within the main body of the standard itself.

There might be other practical difficulties in connection with recognition and measurement of the satisfaction of performance obligations over time. We refer to our response to the Specific Matter for Comment 3.

- **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 proposal in this [draft] Standard on the recognition and measurement requirements for transfer expenses without performance obligations.

However, according to para 114 non-cash assets should be transferred at book value.
We note that IFRIC 17 provides guidance on how an entity should measure distributions to owners. Moreover, a number of IPSASs address how a liability should be measured. Although these standards do not specifically address how an entity should measure transfers of non-cash assets, the IPSASB could identify potentially relevant standards and consider their principles to determine the appropriate and consistent measurement basis for transfers of non-cash assets.

- **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?

We concur with the IPSASB's proposed accounting requirements for revenue and transfer expenses without performance obligations. We think that the lack of symmetry is also reasonable and appropriate under the IPSAS conceptual framework and provides users with sufficient, reliable and relevant information about transactions without performance obligations. We acknowledge that the transfer provider and recipient sometimes have different information that can lead to asymmetries.

The interaction with IPSAS 19 and the Conceptual framework is also relevant for the assessment of this SMC. We noted that IPSAS 19 defines onerous contracts and requires that an entity recognise a provision for onerous contracts: "An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it". ED 72 excludes provisions, as defined in IPSAS 19, from its scope. We suggest that the IPSASB clarifies whether a transfer provider would have to consider whether it has an onerous contract, even if that contract is for the provision of goods and services to third party beneficiaries.

- **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?

This SMC addresses an important area where there is no clear guidance today. We agree with the approach proposed in this [draft] Standard for a binding arrangement that is subject to appropriations, however we believe the proposal will not achieve consistent application of the principles across jurisdictions. We recommend further research to identify current accounting practices applied in various jurisdictions and development of further guidance to address the most common situations. This guidance should, among other things, address how to treat transfers/appropriations that require approval by the parliament in the context of the (annual) budgetary process, both in the transfer recipients' and transfer providers' accounts.

- **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 concur with the statement that the objective of the disclosure requirements is for a transfer provider to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of expenses and cash flows arising from transfer expenses. We agree that it is a useful start to look to ED 70 and ED 71 to determine the appropriate disclosures. However, we recommend that the IPSASB considers the information needs of users to determine the appropriate amount of disclosures.