ED 183

Comments due by 1 October 2020

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON THE PROPOSED INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD ON

TRANSFER EXPENSES

(ED 183)

Issued by the
Accounting Standards Board

March 2020

Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the proposed International Public Sector Accounting Standard on *Transfer Expenses* (ED 183).

Comment received on this Exposure Draft will be used in formulating a response to the IPSASB. Comment should be submitted in writing so as to be received by **1 October 2020**. E-mail responses are preferred. Unless respondents to this Exposure Draft specifically request confidentiality, the comment is a matter of public record once the pronouncement has been issued. Comment should be addressed to:

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Background to the project

Project rationale

At present, there is limited guidance on how to account for certain expenses in the public sector. This is particularly the case for transfers to individuals, households or entities in what have typically been known as “non-exchange transactions”. The IPSASB issued ED 72 on *Transfer Expenses* to address this gap in existing IPSAS literature. ED 72 is part of a broader reform to provide guidance on non-exchange expenses. The principles in ED 72 also compliment the proposed reforms in accounting for revenue. These linkages are explained below.

Accounting for expenses in the public sector

Government commits to provide certain goods and services to its citizens and others through its stated policies. This results in government spending on the procurement of goods and services (including assets) as well as the provision of monetary support to individuals, households and entities. While there are some IPSAS on accounting for expenses, the guidance has focused on those transactions where the parties exchange approximately equal value directly in return, i.e. “exchange expenses”. Guidance has been lacking for “non-exchange expenses”.

Over the last few years, the IPSASB has been working on developing guidance for non-exchange expenses. Diagram 1 on the next page outlines the various expense transactions and how the IPSASB has addressed, or plans to address, their accounting consequences. Most recently, the IPSASB has issued guidance on social benefits the IPSAS on *Social Benefits,* and on collective and individual services by amending the IPSAS on *Provisions, Contingent Liabilities and Contingent Assets.* Guidance is still needed for other non-exchange expenses that are not social benefits or collective and individual services. ED 72 outlines proposed guidance for these transactions.

The need for consistent principles in accounting for revenue and expenses

As entities in the public sector often transact with one another, there is a need for either party to approach the accounting using consistent principles. For example, if one level of government is paying money to another level of government, the accounting principles applied for revenue and expenses should be consistent.

The IPSASB issued a Consultation Paper on *Accounting for Revenue and Non-exchange Expenses* in 2017. This Consultation Paper was driven by the need to align existing IPSAS on revenue to the International Financial Reporting Standard on *Revenue from Contracts with Customers* (IFRS 15®). As IFRS 15 recognises revenue based on the satisfaction of performance obligations, views were requested about whether (a) the IPSASs on *Revenue from Exchange Transactions* (IPSAS 9) and *Construction Contracts* (IPSAS 11) should be aligned to IFRS 15, and (b) whether a performance obligation approach should be adopted for non-exchange expenses.

Based on feedback received, the IPSASB decided to revise IPSAS 9 and IPSAS 11 to outline accounting requirements for “transactions with performance obligations”. The IPSAS on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (IPSAS 23) would be retained and updated to deal with “transactions without performance obligations”. The change in approach means that transactions from a revenue perspective are no longer defined as “exchange” or non-exchange”, but rather as transactions “with performance obligations” or “without performance obligations”. This change towards the recognition of revenue based on the satisfaction of performance obligations is called the “public sector performance obligation approach (PSPOA)”. Two Exposure Drafts have been issued for revenue:

- ED 70 on *Revenue with Performance Obligations*
- ED 71 on *Revenue without Performance Obligations*

Given the need to apply consistent principles for revenue and expense transactions, the IPSASB issued ED 72 to explain the application of the PSPOA to the last remaining area where guidance was needed, i.e. non-exchange expenses. Given the use of the PSPOA in ED 72, there are strong links with the principles in ED 70 and ED 71.

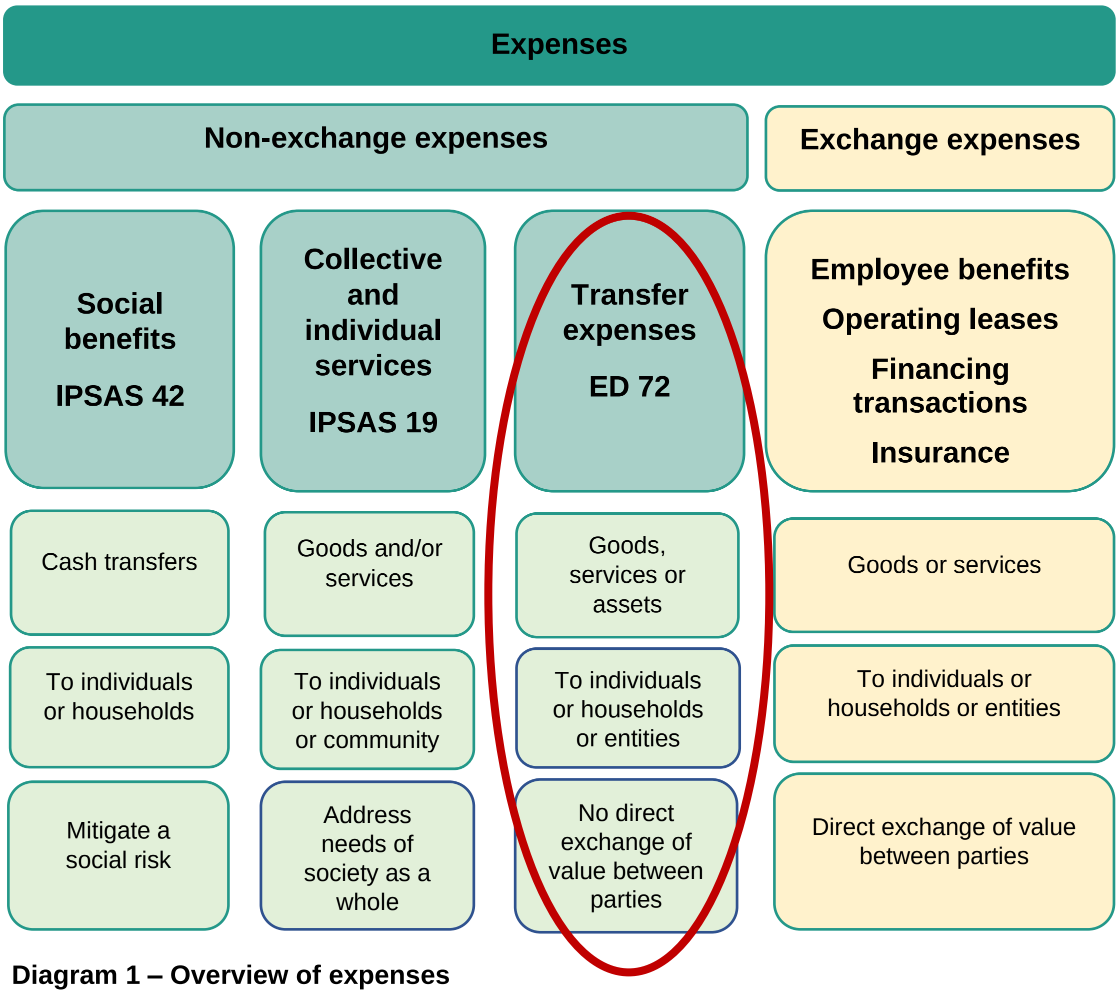

Diagram 1 – Overview of expenses

Impact of Exposure Draft in South Africa

Link between IPSASB and Standards of GRAP

The Board has a policy of aligning Standards of GRAP with IPSAS where this meets the ASB's mandate and strategic objectives. As the Standards of GRAP on *Revenue from Exchange Transactions* (GRAP 9)*, Construction Contracts* (GRAP 11) and *Revenue from Non-exchange Transactions* (GRAP 23) are based on the IPSAS equivalents, any change in the underlying IPSAS means that the Board would need to consider whether or not it should align with any new or revised IPSAS that is issued. Equally, because there is no existing Standard of GRAP on transfer expenses, the Board would consider whether this should be issued as a Standard of GRAP.

The work of the Board is driven by a three-year work programme. The work programme for 2021 to 2023 was published in December 2019. As the IPSASB will still take some time to issue the final IPSAS for revenue and transfer expenses, the Board decided not to add these projects to its work programme for 2021 to 2023. The consultation on the work programme for 2024 to 2026 will decide whether these projects should be initiated. Until such time as the Board issues revised Standards of GRAP, entities should continue to apply GRAP 9, GRAP 11 and GRAP 23.

The Secretariat of the ASB will continue to be involved in the international standard-setting process and contribute to the development of these projects at the IPSASB.

Which entities might be affected?

ED 72 deals with transfers of goods, services and assets to other entities, where the transferring entity does not receive value directly in return. The following transfers are excluded:

- Transfers of cash by an entity to an individual or household to protect them against a social risk, i.e. social benefits.
- Transfers of goods or services to an individual, household or member of a community that are provided to protect society as a whole, i.e. collective and individual services.
- Taxes.

Any other non-exchange transfers are in the scope of the Exposure Draft.

As a result, ED 72 will affect entities that transfer goods, services or cash to other organisations (whether in the public or the private sector), or any other transfers made to individuals or households, where the entity does not receive value directly in return.

Commenting on the Exposure Draft on *Transfer Expenses*

Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting. Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft. The comment received will be used to formulate a comment letter to the IPSASB.

Available materials

The IPSASB has developed an "At-a-Glance" document that outlines the high-level principles and concepts of ED 72. This can be accessed on the ASB's website along with the other materials for the concurrent Exposure Draft:

A webcast is also available on the IPSASB's website: https://www.youtube.com/watch?time_continue=3&v=UfhfVsfK73k&feature=emb_logo

Request for comment

Comment on this Exposure Draft is invited by **1 October 2020**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate.

There are a number of specific matters for comment on which the IPSASB would appreciate feedback. These are outlined below.

Specific matters for comment

The IPSASB would appreciate feedback to the following questions.

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?

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?

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?

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 recognise 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 recognise 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 recognise and measure transfer expenses with 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.

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 recognise 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 recognise and measure transfer expenses without performance obligations?

Specific matter for comment 7:

As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognise 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 recognise revenue as it satisfies those present obligations. Consequently, a transfer provider may recognise an expense earlier than a transfer recipient recognises revenue.

Do you agree that this lack of symmetry is appropriate? If not, why not?

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 recognise a liability, prior to the appropriation being authorised. Do you agree with this proposal?

If not, why not? What alternative treatment would you propose?

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?

General matters for comment

As with any other Exposure Draft, comment on any other matter contained in this Exposure Draft would also be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs.