

## IPSASB Exposure Drafts 70-72

*Revenue with Performance Obligations*

*Revenue without Performance Obligations*

*Transfer Expenses*

## **Response from the Chartered Institute of Public Finance and Accountancy (CIPFA)**

30 October 2020

**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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**Exposure Draft 70 Revenue with Performance Obligations**  
**Exposure Draft 71 Revenue without Performance Obligations**  
**Exposure Draft 72 Transfer Expenses**

CIPFA is pleased to present its comments on these exposure drafts which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

As we noted in CIPFA's response to the Board's consultation paper on Revenue and Non-Exchange Expenses, revenue reporting is a key area for the public sector, whether reflecting commercial imperatives, or the distinctive non-exchange aspect of public services transactions.

We also noted that there is a need to fill the gap in the IPSASB literature on accounting for non-exchange expenses. Further to this, we welcome the more specific focus of ED 72 on transfer expenses, which correspond mainly to grant funding expenses. This area is in our view where the most significant issues arise in practice.

**General comments on drafting**

We support the splitting of revenue and (transfer) expenses into three separate standards as the clearest approach to providing the necessary direction and guidance to preparers.

We also agree that it is appropriate to consider the matters in three EDs at the same time because of their interconnectivity. In the light of this interconnectivity, it is particularly important that the drafting is consistent and clear. This will be particularly relevant in relation to revenue transactions which are in the scope of both ED 70 and ED 71, and for arrangements with expenses in the scope of ED 72 where the revenue will be in the scope of ED 70 or ED 71.

There are particular problems with the use of the word 'transfer', which is used extensively in each of the exposure drafts but with different shades of meaning, as follows:

- In ED 70, 'transfer' is used in the natural sense of a movement of resources, generally in the context of a contract or a binding arrangement with a performance obligation.
- In ED 71, 'transfer' is a defined term, which is used for movements of resources which do not have performance obligations. ED 71 extends this with substantial use of derived terms 'transfer recipient', 'transfer provider', 'transfer arrangement'. The term is also used in the 'natural' sense, and also to denote 'grants'.
- In ED 72, 'transfer' is used primarily as a GFS aligned term to denote 'grants', although it is sometimes used in the other senses. In contrast to ED 71, these may or may not have performance obligations.

The different approaches to transfer make it difficult to read the standards as a coherent whole, and when moving between standards or reading sections of standards in isolation preparers may need to remind themselves how the term is being used. For this reason we suggest the Board considers reframing one or more of the standards so that terminology is as consistent and understandable as possible.

## **Other general comments**

CIPFA supports the approach to revenue reporting set out in ED 70 and 71.

We also consider that there is a need to provide additional disclosure in some cases where reporting on transactions at historical cost might result in a lack of transparency. In the light of the extensive additional disclosures which might sometimes be required, we also suggest that additional signposting to guidance on the application of materiality to disclosures would be helpful.

CIPFA also supports the underlying principles which underpin the proposals in ED 72.

However, in our view there are still some matters which have not been resolved satisfactorily, and significant refinement may be needed to develop an operational standard.

## **Response to Specific Matters for Comment**

Detailed comments on the Specific Matters for Comment in the 3 exposure drafts are provided in the attached Annex.

We hope this is a helpful contribution to IPSASB's work in this area.

**ED 70 Revenue with Performance Obligations****ED 70 Specific Matter for Comment 1**

This Exposure Draft is based on IFRS 15, *Revenue from Contracts with Customers*.

Because in some jurisdictions public sector entities may not have the power to enter into legal contracts, the IPSASB decided that the scope of this Exposure Draft would be based around binding arrangements. Binding arrangements have been defined as conferring both enforceable rights and obligations on both parties to the arrangement.

Do you agree that the scope of this Exposure Draft is clear?

If not, what changes to the scope of the Exposure Draft or the definition of binding arrangements would you make?

Subject to clarification of the definition of binding arrangement, CIPFA agrees with the proposed scope based around binding arrangements. This will appropriately capture both contractual arrangements and a significant body of arrangements which have similar substance to contracts but which do not have the legal form of contracts.

We would note that the definition of contract in IFRS 15 is an agreement between two or more parties that creates enforceable rights and obligations, whereas ED 70-72 seem to be framed in terms of a single purchaser and a single provider. While this will often be the case it will not always be so, and we suggest that binding arrangements in the ED should be more clearly aligned with contracts in IFRS 15, to encompass arrangements between two or more parties bound by the arrangement (as distinct from third party beneficiaries, who are generally not bound by the arrangement, and indeed may be unaware of the arrangement).

Subject to the above clarification, CIPFA also agrees that the scope of the ED is generally clear.

In relation to the definition of binding arrangements, some members of CIPFA's Accounting and Auditing Standards Panel were concerned that the widespread use of the term 'promise' and related use of 'promised' were not always clear, and that 'promise' may have wider connotations in the context of non-exchange transactions. The Board may wish to consider if there is a better way to capture the intended meaning, or to provide clarity around this.

However, we note that the usage of these terms directly parallels usage of 'promise' and 'promised' in IFRS 15, and we were not able to find a substitute term which worked in all cases. Retaining the term 'promise' may therefore be necessary to maintain a clear read across against IFRS 15.

**ED 70 Specific Matter for Comment 2**

This Exposure Draft has been developed along with [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations, and [draft] IPSAS [X] (ED 72), Transfer Expenses, because there is an interaction between them. Although there is an interaction between the three Exposure Drafts, the IPSASB decided that even though ED 72 defines transfer expense, ED 70 did not need to define “transfer revenue” or “transfer revenue with performance obligations” to clarify the mirroring relationship between the exposure drafts. The rationale for this decision is set out in paragraphs BC20–BC22.

Do you agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”?

If not, why not?

CIPFA agrees with the rationale provided for not defining “transfer revenue” or “transfer revenue with performance obligations” in [draft] IPSAS [X] (ED 70), Revenue with Performance Obligations. However, it may be appropriate to review this in the light of redrafting which the IPSASB might carry out to address issues raised in the covering letter and our responses to ED 71 and 72.

Having regard to the changes in drafting which might be needed to address these issues, it may be appropriate to acknowledge the existence of ‘transfer revenue’ as a counterpart to ‘transfer expense’, but that discussion might be confined to explanatory material in [draft] IPSAS [X] (ED 72), Transfer Expenses.

We do not see a need to define “transfer revenue with performance obligations” in ED 70, although the discussion in [draft] IPSAS [X], (ED 72) Transfer Expenses might reflect on the fact that transfer revenue will be dealt with in the relevant revenue standard, based on whether the binding arrangement contains performance obligations.

It might also be difficult to define ‘transfer revenue’ and related terms in ED 71 without causing confusion, given that ED 71 uses a special meaning of transfer which is not the same as that used in ED 72.

**ED 70 Specific Matter for Comment 3**

Because the IPSASB decided to develop two revenue standards—this Exposure Draft on revenue with performance obligations and ED 71 on revenue without performance obligations—the IPSASB decided to provide guidance about accounting for transactions with components relating to both exposure drafts. The application guidance is set out in paragraphs AG69 and AG70.

Do you agree with the application guidance?

If not, why not?

CIPFA agrees with the application guidance included in the (draft) standards.

This makes clear the general principle of allocating the transaction price when a binding arrangement provides for both the delivery of specific goods and services and the

provision of more general support or satisfaction of obligations which are not performance obligations.

We also agree with the IPSASB's rebuttable presumption that the binding arrangement relates solely to the supply of goods or services under a performance obligation unless there is a clear provision that only a portion of the consideration is to be returned in the event of a failure to complete the performance obligation.

#### **ED 70 Specific Matter for Comment 4**

The IPSASB decided that this Exposure Draft should include the disclosure requirements that were in IFRS 15. However, the IPSASB acknowledged that those requirements are greater than existing revenue standards.

Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed?

If not, why not?

CIPFA agrees that the disclosure requirements should be aligned with IFRS 15, and that no disclosure requirements should be removed in the proposed standard.

We are not aware that any of the IFRS 15 disclosures are considered unnecessary in the private sector and see no sector specific considerations that would make them superfluous in public sector financial statements.

We would note that experience of application of IFRS 15 requirements in the private sector and in some public sector financial statements indicates that fewer than the full range of possible disclosures are generally made in practice, having regard to the applicability of each requirement in the standards.

In some cases, extensive and detailed disclosures might be required from a straightforward application of the IFRS 15 requirements. Under such circumstances, in line with the approach applicable to all financial reporting under IPSAS, it would be appropriate for preparers to review the extent to which individual disclosures are material, taken together with other reporting and disclosures. In making choices about which disclosures to retain, preparers should consider whether simplistic application of the requirements would provide a large number of disclosures about immaterial matters, which could distract attention from important disclosures and undermine understandability. This consideration should be informed by an understanding of the users of the financial statements.

Additionally, when reading over the proposed standard, it was particularly noticeable that the word 'shall' was used in a very large number<sup>1</sup> of cases, echoing similar treatment in IFRS 15. While this is a familiar aspect of all IFRS and IPSAS standards based on IFRS, the cumulative effect of repeated use of 'shall' may make it difficult for preparers to stand back and apply the nuanced thinking necessary to disapply requirements when they are 'applicable but not material'.

While IPSAS guidance on the application of materiality applies to all IPSAS reporting, it may be particularly beneficial to draw attention to materiality considerations in these

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<sup>1</sup> The word 'shall' occurs 300 times in ED 70

new standards, given the potentially significant additional disclosures that could potentially apply in some cases.

**ED 70 Specific Matter for Comment 5**

In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47.

Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions?

If not, why not?

CIPFA agrees with the underlying intention of this proposal, recognising that in some cases public sector bodies may be required to enter into binding arrangements which are not enforceable on the other party to the arrangement, and in some cases this party may lack the ability or intention to pay.

However, we have some concern that while the drafting is accurate, it may be confused with 'normal' reductions to expected revenue which are processed through adjustments for doubtful debt under IPSAS 41, *Financial Instruments*, rather than as variations in the value of consideration. While the treatment of 'normal' impairments to receivables is implicit in the proposed standard, it would be helpful to distinguish the treatment of these uncollectable items from items which have been recognised in revenue before having their value reduced through IPSAS 41 adjustments.

## ED 71 Revenue without Performance Obligations

### ED 71 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?

CIPFA generally agrees with the proposals.

However, taking ED 70 and ED 71 together, we are concerned that the proposed standards may not between them capture all relevant arrangements which, in our view, fall to be accounted for in line with the discharge of an obligation.

A specific example might be revenue in relation to compulsory audit fees for public sector audit by a supreme audit institution or other public sector audit institution. Key elements of arrangements in the UK for some public sector audits include the following

- Payment of the audit fee by the audited body is mandatory. The payment may become due without regard to the specifics of the performance of the audit or in relation to any specified activity or expenditure
- The audit institution is subject to statutory requirements to function in a particular way, which in practice will mean that the institution carries out (or commissions) work which is essentially identical to that which would be undertaken under commercial contractual arrangements. However, the mode of operation of the public sector audit institution may not be determined to the extent that it sets out specified activities or eligible expenditure.

Having regard to the above, we are concerned that under the current formulation of a present obligation, such audit fee revenue might need to be recognised immediately that the audit fee becomes due, despite the fact that satisfaction of the overarching obligation of the audit institution has not yet been achieved, and in practice will be achieved later through the completion of this and other audits. We would note that this would be in contrast to other public sector audits carried out under contractual arrangements, or under obligations framed in a more specific way.

**ED 71 Specific Matter for Comment 2**

The flowchart that follows paragraph 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?

CIPFA agrees that the flowchart clearly illustrates the process.

**ED 71 Specific 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?

CIPFA considers that the [draft] Standard includes the essential information required to determine when a present obligation is satisfied and when revenue should be recognized.

However, it would help readers of the [draft] Standard to refer to the principles set out in the more extensive discussion in ED 70.

**ED 71 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?

In line with our response to SMC 3, CIPFA suggests that it would be helpful to cross refer to the principles and guidance in [draft] IPSAS [X] (ED 70)

**ED 71 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?

CIPFA agrees with this proposal for subsequent measurement of receivables.

**ED 71 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?

CIPFA agrees that the disclosure requirements in this [draft] Standard generally provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations.

The proposed disclosures all appear relevant.

In line with our comments on ED 70 SMC 4, in some cases, extensive and detailed disclosures might be required. Under such circumstances, in line with the approach applicable to all financial reporting under IPSAS, it would be appropriate for preparers to review the extent to which individual disclosures are material, taken together with other reporting and disclosures. Similar considerations to those outlined in ED 70 SMC 4, will apply and should be informed by an understanding of the users of the financial statements. As previously explained, it may be particularly beneficial to draw attention to materiality considerations in these new standards.

### **ED 71 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?

CIPFA agrees with the approach taken in the ED. The structure, principles and guidance are logically set out. Detailed comments on how these could be presented more clearly are provided in responses to some of the SMCs.

### **Other comments on ED 71**

As noted in the covering letter, in ED 71, 'transfer' is used primarily as a specialist term for movements of resources which do not have performance obligations, and this approach is not consistent with the way the term is used in ED 70 or ED 72. The term is also used in the 'natural' sense, and also to denote 'grants'. Rather than defining the term 'transfer' as excluding performance obligations, it would be better to explain that this standard focuses on transfers without such obligations.

The repetitive use of 'transfer' and associated derived terms may also have the effect of making the standard less readable, especially if the term transfer continues to be used in a way which is not consistent with its use in ED 72. It might be better to reduce the usage of such derived terms, and instead make it clear that each part of the standard relates to in-scope revenue, that is, transfers without performance obligations. Once this has been done, it will normally be clear, for example, that the 'recipient' is the recipient in the transfer transaction, and that 'arrangement' is referring to the arrangement that the transfer transaction is part of.

Furthermore, some of the usages in ED 71 seem strange, illogical or confusing.

The term 'transferred assets' seems sometimes to be used for cash or other resources which have been transferred, and at other times for a receivable which is recognised in relation to an obligation for a future transfer of cash or other resources. While the receivable is recognised as a result of a past event, it seems confusing to use the past tense 'transferred asset' to describe a receivable for a future transfer.

AG35 states that 'Transfers satisfy the definition of an asset'. This seems wrong – while a transfer may give rise to an asset, it does not seem appropriate to equate the transfer with the asset.

Similarly, transfers are also described as being 'recognized as an asset and revenue', which again seems unclear and imprecise.

## ED 72 Transfer Expenses

### 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?

CIPFA agrees with the rationale behind the scoping of the standard, but we would note that some expert CIPFA stakeholders with substantial experience in standard setting found the scope difficult to understand; the standard does not seem to be written with practitioners in mind.

This difficulty arose at least in part because of the use of the terms 'transfer' and 'transfer expenses'. The term transfer in the technical sense used in fiscal reporting does not form part of the specialist vocabulary of most preparers of accounts. While we can see that a discussion of GFS transfers is helpful, this can be confusing given that 'transfer' is used in other senses elsewhere in all three proposed standards. This is perhaps inevitable, because of the extensive use of this term in IFRS 15.

Additionally, the use of transfer provider, transfer recipient and other derived terms on many hundreds<sup>2</sup> of occasions makes the standard seem dense and difficult to read.

We therefore suggest that while it is useful to establish the read across to transfers in GFS reporting, in the main body of the standard IPSASB might consider using other terminology which is more in line with the terms used by public sector preparers, and indeed, in extant IFRS standards. The term 'grants' is well understood by many public sector preparers and captures the main category of transaction where guidance is needed.

At present the scope of the standard is substantially defined in terms of what is excluded, rather than what the standard is designed to address, and some of the exclusions are not easy to understand. One expert stakeholder considered that the definition could be read to describe, for example, payments to private sector companies providing probation services; the only reason they were not captured by the standard was because

- Probation services are Individual Services as defined by IPSAS 19
- IPSAS 19 AG6 allows that (Collective and) Individual Services may be provided directly by public sector organisations or by purchasing goods and services from private sector contractors
- paragraph 5(b) of the draft standard excludes Collective and Individual Services

In line with the above, a focus on 'grants' might avoid confusion and make the scope easier to understand.

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<sup>2</sup> Transfer provider is used more than 600 times in ED 72, and transfer recipient more than 300 times.

## **ED 72 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?

CIPFA agrees that it is sensible to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction in ED 70 and ED 71 on revenue.

Furthermore, CIPFA agrees with the proposed treatment of arrangements which straightforwardly involve transfer expenses with performance obligations.

However, when considering the proposals for other arrangements, it is not clear that the proposals provide clarity or improve upon IPSAS 23 in certain edge cases.

The particulars of the proposed treatment are that the transfer provider shall recognize an expense at the earlier of:

- (a) When the provider has a present obligation to transfer resources to a transfer recipient. In such cases, the transfer provider shall recognize a liability representing its obligation to transfer the resources; and
- (b) When the transfer provider ceases to control the resources; this will usually be the date at which it transfers the resources to the transfer recipient. In such cases, the transfer provider derecognizes the resources it ceases to control in accordance with other Standards.

In considering (b) above, we were concerned that ceasing to control resources will often equate to the transfer of cash, and this may result in the inappropriate application of cash basis accounting rather than accrual in some cases. For example, a government body may decide to support specified activities during the next financial year using grants, and to avoid cash flow problems or borrowing requirements for the grant recipient, may provide funding immediately before the start of the next financial year. In this scenario it would seem that under both IPSAS 23 and the [draft] Standard, the grant expense will be recognised in the current financial year, despite the fact that in practice, the grant recipient will not carry out any of the specified expenditure during the current year. This seems intuitively incorrect. We agree that grant recipient present obligations, unlike performance obligations, will not in general provide a basis for long term recognition of an unexpended asset by the grantor. However, it is not clear that the asset is extinguished instantaneously before the grant recipient has had a chance to carry out the specified expenditure or activities which the grant is intended to fund. And while we recognise that in some cases a grant recipient may inappropriately spend grant funds in the current period, it does not seem appropriate to default to a treatment based on this.

### **ED 72 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?

CIPFA agrees with the broad idea behind this proposal.

For there to be a non-zero asset in respect of unsatisfied performance obligations, it must be reasonably probable that this asset will deliver goods, services or other value which serve the transfer provider's policy objectives. Monitoring transfer recipient performance will provide an indication of the extent to which the transfer recipient has currently satisfied the obligation, and may also be deemed to provide assurance that any remaining portion of the obligation will be satisfied. The prospect of future monitoring will reinforce the probability that further value will be received from the asset.

Having said this, it is not clear what it is envisaged might be considered to be appropriate 'monitoring' and more clarity on this would be helpful. In particular, it is not clear to us what is meant by the requirement for monitoring *throughout* the duration of the binding arrangement. We would note that there are a wide variety of ways in which monitoring can be carried out, involving differing degrees of verification or assurance, and different frequencies of verification / assurance.

The requirements also seem to be expressed quite deterministically, and it is not clear how they might be applied to government bodies which take a risk based approach to verifying performance on a sample basis across a large number of grant recipients.

### **ED 72 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.

CIPFA agrees with the proposals for recognition and measurement for these transfer expenses.

**ED 72 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.

CIPFA does not have any specific issues to raise in connection with the practicality of applying the recognition and measurement requirements for transfer expenses, with or without performance obligations. We note that the IPSASB is considering a number of issues around measurement generally in its Measurement project, and some measurement issues may be dealt with in other projects, for example in connection with the measurement of concessionary leases in the Board's project on lease accounting.

**ED 72 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?

CIPFA generally agrees that the proposals will result in appropriate reporting in many cases. However, as noted in our response to SMC 2, there do seem to be some issues for certain edge cases.

Additionally, we would note that there may be a loss of transparency and accountability in certain cases where a non-cash asset is transferred, and that asset is measured at historical cost. In some cases, the carrying value of the asset may be very different from the fair value of the asset.

This issue is similar to issues which arise for assets being held for sale, and we note that similar concerns have been noted in the September 2020 submission on a proposed IPSAS on Available for Sale Assets and Discontinued Operations. That submission suggested that transparency and accountability should be provided by providing disclosures in cases where there are significant differences between the fair value and carrying value of an asset held for sale.

We suggest that a similar disclosure would be appropriate in circumstance where a non-cash asset is transferred which is measured at a carrying value which is significantly different from the fair value of the asset.

**ED 72 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?

CIPFA agrees that this lack of symmetry is appropriate

**ED 72 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?

The recognition of a liability depends on the economic substance of the arrangement, and specifically the existence of a present obligation.

We note that there is a wider context in which many binding arrangements are subject to appropriations. An annual appropriation process is often used to authorise all payments by a public sector body in a particular financial year. These public sector bodies will often enter into contracts or other binding arrangements with obligations which the body will not discharge in the current financial year

This obligation will not in general be affected by government authorisation processes such as appropriations, and it will therefore still be appropriate to recognise a liability. The fact that the liability cannot legally be satisfied until appropriations are made is relevant and important information, but will not in general affect the accounting treatment.

The specific proposal in the [draft] Standard relates to binding arrangement which specify that the resources to be transferred to a transfer recipient by a transfer provider are subject to an appropriation being authorized. This specificity may signal different things depending on context, the relevant legal framework, and custom and practice in the jurisdiction. In particular, it may signal that the binding arrangement is not yet

binding on the public sector grantor, and in these circumstances there is no present obligation, and recognition of a liability would not be appropriate. However, CIPFA agrees that it is appropriate to consider the substance of the arrangement to consider whether it has a present obligation to transfer resources prior to the appropriation being authorised, and that this will drive the accounting.

In line with the above, CIPFA agrees with this proposal.

**ED 72 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?

CIPFA agrees that the disclosure requirements in this [draft] Standard generally provide users with sufficient, reliable and relevant information about transfer expenses.

The proposed disclosures all appear relevant.

As previously explained, it may be particularly beneficial to draw attention to materiality considerations in these new standards.