

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: September 22-25, 2015

Agenda Item 8

For:

Approval

Discussion

Information

Revenue

Objectives of Agenda Item

1. The objective of the issues paper is to seek feedback from the IPSASB on the key issues that should be considered when reviewing the requirements for revenue from non-exchange transactions. More specifically:
 - (a) To check whether we have identified all the key issues;
 - (b) To seek feedback from the IPSASB on the relative importance of these issues; and
 - (c) To seek feedback from the IPSASB on the work that should be undertaken in this project in relation to those issues and to assist the IPSASB in deciding whether a consultation paper is required for this project.
2. The IPSASB will have an opportunity to discuss the links between this project and the non-exchange expenses project prior to agenda item 7, and following consideration of items 7 and 8. Agenda item 7.1 considers the links between the two projects.

Materials Presented

Agenda Item 8.1 Issues paper

Action Requested

3. The IPSASB is asked to provide feedback on the matters for consideration in agenda paper 8.1.

REVENUE

Objectives of the Issues Paper

1. The objective of this issues paper is to seek feedback from the IPSASB on the key issues that should be considered when reviewing the requirements for revenue from non-exchange transactions. More specifically:
 - (a) To check whether we have identified all the key issues;
 - (b) To seek feedback from the IPSASB on the relative importance of these issues; and
 - (c) To seek feedback from the IPSASB on the work that should be undertaken in this project in relation to those issues and to assist the IPSASB in deciding whether a consultation paper is required for this project.

Structure of the Issues Paper

2. The sections in this issues paper are:
 - (a) Background;
 - (b) Summary of IPSAS 23;
 - (c) Feedback About IPSAS 23;
 - (d) Exchange vs Non-Exchange;
 - (e) Interaction between IPSAS 23 and Other Standards;
 - (f) Services In-Kind;
 - (g) Capital Grants;
 - (h) The Conceptual Framework; and
 - (i) Next Steps.

Background

3. At its March 2015 meeting the IPSASB approved a project brief for a revenue project to update the requirements and guidance currently set out in:
 - (a) IPSAS 9, *Revenue from Exchange Transactions*;
 - (b) IPSAS 11, *Construction Contracts*; and
 - (c) IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.
4. At this stage, no decision has been made on the number of standards or whether to issue a consultation paper for this project. The agenda papers in June suggested that two revenue standards are likely to be needed. One standard could deal with revenue with performance obligations, using the ideas in IFRS 15, *Revenue from Contracts with Customers* as a starting point. The other standard could deal with the remaining revenue transactions, most of which are currently dealt with in IPSAS 23.

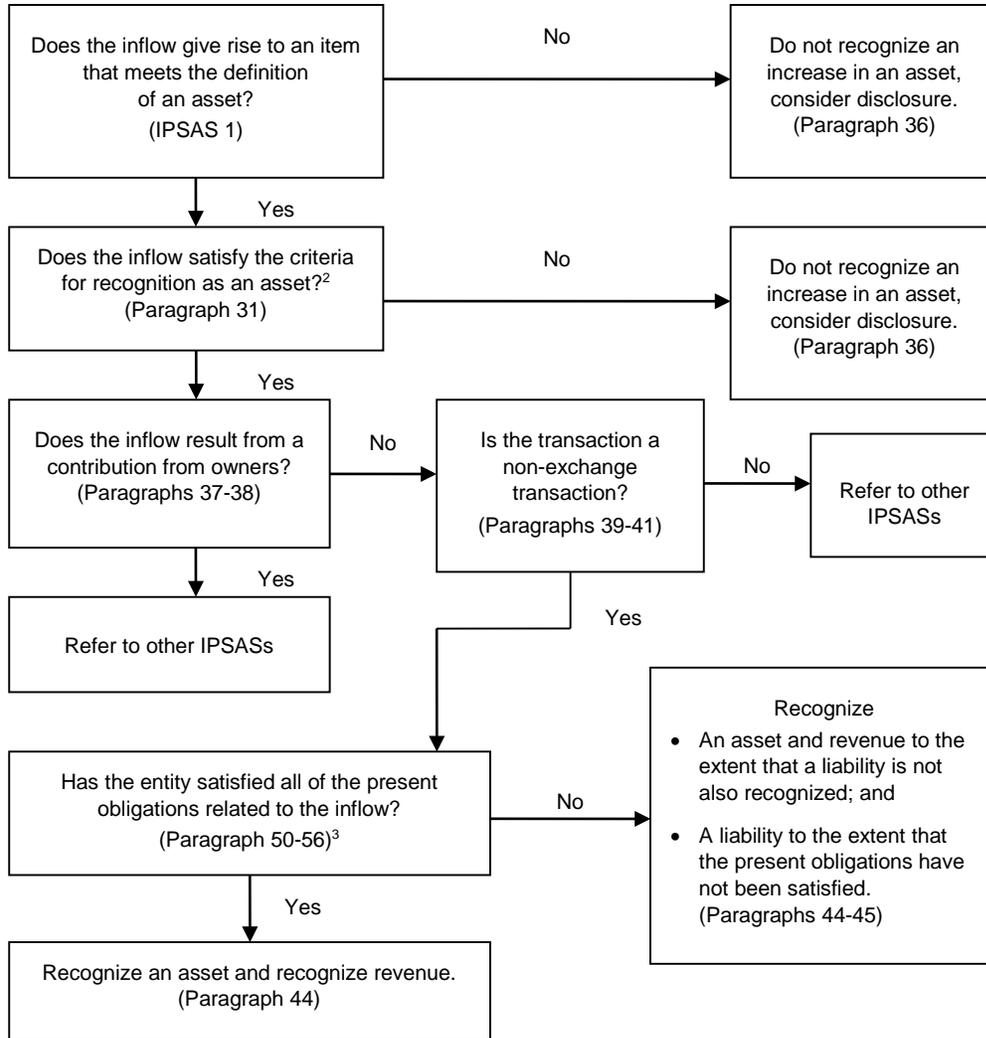
5. The IPSASB noted that there would be some overlap between its projects on revenue and on non-exchange expenses. The IPSASB asked that the two project teams work together to identify these overlaps and identify when there may not be symmetry in accounting for both sides of the transactions. As discussed in agenda paper 7.1, the main area of overlap between the two projects is where the non-exchange expense of one public sector entity is a non-exchange revenue of another entity.
6. The agenda papers for this meeting focus on issues that have been raised in relation to non-exchange revenue. The paper indicates where the transactions under consideration are likely to overlap with the non-exchange expenses project.

Summary of IPSAS 23

7. IPSAS 23 was first issued in December 2006. It:
 - (a) Takes a transactional analysis approach whereby entities are required to analyze inflows of resources from non-exchange transactions to determine if they meet the definition of an asset and the criteria for recognition as an asset, and if they do, whether a liability is also required to be recognized;
 - (b) Requires that assets recognized as a result of a non-exchange transaction be initially measured at their fair value as at the date of acquisition;
 - (c) Requires that liabilities recognized as a result of a non-exchange transaction be recognized in accordance with the principles established in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*;
 - (d) Requires that revenue equal to the increase in net assets associated with an inflow of resources be recognized;
 - (e) Provides specific guidance that addresses:
 - (i) Taxes; and
 - (ii) Transfers, including debt forgiveness and assumption of liabilities, fines, bequests, gifts and donations (including goods in-kind), and services in-kind;
 - (f) Permits, but does not require, the recognition of services in-kind; and
 - (g) Requires disclosures to be made in respect of revenue from non-exchange transactions.
8. IPSAS 23 uses a flow chart to illustrate the analytic process an entity uses to determine whether revenue arises from an inflow of resources (see Diagram 1 below).

Diagram 1 IPSAS 23 Flow Chart

Illustration of the Analysis of Initial Inflows of Resources¹



1. The flowchart is illustrative only, it does not take the place of this Standard. It is provided as an aid to interpreting this Standard.
2. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise. In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability.
3. In determining whether the entity has satisfied all of the present obligations, the application of the definition of conditions on a transferred asset, and the criteria for recognizing a liability, are considered.

9. IPSAS 23 establishes requirements for the recognition and initial measurement of assets acquired through non-exchange revenue transactions and liabilities arising from non-exchange revenue transactions (see Table 1 below).

Table 1

	Recognition	Initial measurement
Assets	<p>Recognize an asset if:</p> <ul style="list-style-type: none"> • It meets the definition of an asset; and • An inflow of resources is probable and the fair value can be measured reliably 	<p>Fair value as at the date of acquisition (para 42)</p> <p>Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity. Reporting entities will develop accounting policies for the measurement of assets arising from taxation transactions that conform to the requirements of paragraph 42. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets. (para 67)</p>
Liabilities	<p>Recognize a liability if:</p> <ul style="list-style-type: none"> • It meets definition of a liability; and • An outflow is probable and can be reliably estimated 	<p>Best estimate at the reporting date (para 57)</p> <p>The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p>

10. These fundamental aspects of IPSAS 23 will obviously need to be reviewed for consistency with the Conceptual Framework. In particular, Chapters 5, 6 and 7 will be relevant. In addition, the consideration of specific issues should be guided by the Conceptual Framework.

Feedback About IPSAS 23

11. The IPSASB's decision to undertake a revenue project that considered the treatment of both exchange revenue and non-exchange revenue was influenced by feedback from constituents on two recent strategy and work program consultations.
12. Both the *Consultation on the IPSASB Work Program 2013-14* (issued July 2012) and the *Strategy Consultation 2015 Forward* (issued March 2014) sought feedback from constituents on a potential project referred to as "Improvements to IPSAS 23 – Non-Exchange Revenues". The project description in the 2012 and 2014 papers was almost identical. The 2012 description read:

A number of examples have been identified where the interaction between IPSAS 23 and other IPSASs has resulted in inconsistencies in dealing with non-exchange issues. Certain accounting treatments in IPSAS 23 have also been identified for further review. The IPSASB considered this project in March 2011 and decided to defer this project until completion of the Public Sector Conceptual Framework project because of the potential implications the development of a definition of revenues may have.

13. The comments from constituents about IPSAS 23 are set out in Appendix A of this paper. These comments provide a good starting point for identifying issues that might need to be addressed as part of the revenue project and we have structured this issues paper around some of the comments.
14. Comments that we have focused on in subsequent sections of this paper are as follows:
 - (a) Exchange vs non-exchange:
 - It can be difficult to classify certain revenue transactions as exchange or non-exchange. This can be particularly difficult for public sector entities that operate under a purchaser-provider model whereby they receive funding from another public sector entity to provide goods or services to members of the public.
 - The IASB's work on revenue from contracts (which led to IFRS 15) should be considered when reviewing IPSAS 23.¹
 - (b) Interaction between IPSAS 23 and other standards:
 - Any review of IPSAS 23 should examine the links between IPSAS 23 and other IPSASs.
 - There is a need for guidance on the recognition of revenue in relation to rights to use assets for no, or nominal amounts (for example, the right to use office premises for a nominal rent).
 - (c) Services in kind:
 - IPSAS 23 does not require the recognition of revenue for services in-kind, but these could be a significant part of the resources used by an entity.
 - (d) Capital grants:
 - There is a need for consistent guidance on both the expense and revenue side of the transaction.
15. Comments that we have not specifically discussed in this paper, but which will need to be considered during the course of the project include:
 - (a) Any review of IPSAS 23 should ensure that the requirements in IPSAS 23 are consistent with the elements in the Conceptual Framework. Some respondents suggested that the IPSASB's consideration of deferred flows in the Conceptual Framework project should inform future thinking on non-exchange revenue.
 - (b) Users might need additional information to understand fluctuations in surplus or deficit resulting from the receipt of large grants with no return conditions (which, under the current IPSAS 23 requirements would be recognized upfront).

¹ These constituents did not imply that the requirements in IFRS 15 would necessarily be appropriate for all non-exchange revenues, but they did suggest that the IPSASB should consider the IASB's work, particularly in relation to revenue transactions with performance obligations.

- (c) Wide interpretations of the standard in practice suggest there is a need for more clarification.
 - (d) The IPSASB should consider creating separate standards for taxes and transfers. Dealing with both topics in one standard increases the complexity of the standard.
 - (e) There are inconsistencies within IPSAS 23.
16. The IPSASB has recently received a request to clarify apparent inconsistencies within IPSAS 23. This request is discussed in the improvements project (refer agenda item 5). One of the issues outlined in the request was the conflicting guidance in IPSAS 23 on whether a condition gives rise to deferred revenue or revenue. For example, paragraph 24 seems to contradict the general requirements of IPSAS 23. The general requirement in IPSAS 23 is that a condition (a stipulation to use funds as required or return them) gives rise to a present obligation. However, paragraph 24 states that if the condition is subject to a specified future event, a return obligation does not arise until such time as it is expected the stipulation will be breached.
17. Project staff from the non-exchange expenses project and this project have been undertaking outreach to identify issues that should be considered in these projects and to seek feedback on users information needs. A verbal update on key messages from this outreach will be provided at the meeting.
18. We now look at issues identified in paragraph 14 in more detail and consider ways in which this project could try to address them. Each section describes the issue, identifies possible pieces of work in relation to the issue, considers the link to the non-exchange expenses project and identifies which of the examples in agenda paper 7.1 are relevant to the issue.

Exchange vs Non-Exchange

19. In order to apply IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 23, entities must classify revenue as exchange revenue or non-exchange revenue. They classify revenue using the definitions in IPSAS 9.

Definition of Exchange Transactions (IPSAS 9)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Definition of Non-Exchange Transactions (IPSAS 9)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

20. Revenue can also arise out of events rather than transactions. For example, increases in market prices can lead to revaluation gains. Such revenue is neither exchange nor non-exchange.

21. IPSAS 9, paragraph 39, requires disclosure of each significant category of exchange revenue, including revenue arising from:
 - (a) The rendering of services;
 - (b) The sale of goods;
 - (c) Interest;
 - (d) Royalties; and
 - (e) Dividends and similar distributions.
22. IPSAS 23, paragraph 4, refers to the following examples of non-exchange revenue transactions:
 - (a) Taxes;
 - (b) Transfers (whether cash or non-cash), including grants, debt forgiveness, fines, bequests, gifts, donations, goods and services in-kind, and the off-market portion of concessionary loans received.
23. The key characteristics of an exchange transaction are:
 - (a) There are two parties that have agreed to enter into the transaction;
 - (b) There is a direct exchange of economic benefits or service potential between the parties; and
 - (c) The exchange is of approximately equal value.
24. Some jurisdictions have experienced difficulties in classifying revenue as exchange or non-exchange. Table 2 outlines some of the issues that have led to debates about classification. Table 3 gives examples of revenue transactions that have been classified as exchange and non-exchange, and those where classification has been debated.

Table 2 Classification issues

Key characteristics of exchange transactions	There are two parties that have agreed to enter into the transaction	There is a <i>direct</i> exchange of economic benefits or service potential between the parties	The exchange is of approximately equal value
Practical Issues	<p>“Agreement” might have occurred on a one to one basis.</p> <p>However, there can be some cases where the amount to be charged by the government for providing certain regulated services is “agreed” by way of consultation.</p>	<p>When the purchaser-provider model is used, there are “agreements” between two entities to provide services, but the services may be provided to third party beneficiaries. Even though the purchaser receives some value, this is not a <i>direct</i> exchange between the two parties.</p> <p>Some have argued that there is no direct exchange if there are no economic consequences for non-performance.</p>	<p>Some public sector entities provide services that are funded partly by user fees and partly from taxes.</p> <p>Some revenues (mainly permits, licences and levies), are for a mixture of services and regulatory functions.</p>

25. Table 2 uses quotation marks around the word “agreement” to indicate that there are varying types of agreements about transactions. In some cases the details of the transaction have been discussed and agreed by the parties to the transaction. In other cases, there may have been little room for negotiation. Rather a government may have specified the amount it will pay for services.

Table 3 Examples of revenue transactions²

Exchange	Classification debated	Non-exchange
<u>Whole of government</u> Sale of goods on a commercial basis Provision of services on a commercial basis Interest, Dividends, Royalties	Permits Licences Levies	Most taxes Fines and penalties Grants received Donated or vested assets Goods and services in kind Concessionary loans received Subsidised goods and services
<u>Subnational government</u> Fees for waste disposal ³ Parking fees (excluding fines) Rent Water rates ⁴ Interest, Dividends	Transfers from governments to subnational governments. Development contributions ⁵ Wastewater charges Entrance fees (zoo, galleries) Fees and levies to cover the cost of regulatory functions (for example, licences and consents)	General rates Infringements Fines Subsidised goods and services Vested assets ⁶
<u>Individual Public Sector Entity</u> Fees for training Fees for publications	Fees and levies to cover the cost of regulatory functions (for example, passport fees, licences and consents)	

26. IPSAS 23 does permit transactions to be split into exchange and non-exchange components. It acknowledges that there is a group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases IPSAS 23 says that the entity should determine whether there is a combination of exchange and non-exchange transactions, and recognize each component separately. Where it is not possible to split the transaction into components, the entire transaction is treated as non-exchange.
27. The IPSASB has provided some guidance on splitting transactions into components (for example, IPSAS 29 *Financial Instruments: Recognition and Measurement*, paragraphs AG84 to AG90 and

² This table illustrates some examples of revenues where classification has been debated. It is not exhaustive.

³ 100% paid for by users.

⁴ Water usage is metered and the water rates are based on the amount of water used.

⁵ In exchange for the development contribution from a property developer, the subnational government must provide services (for example, network infrastructure, community infrastructure, reserves).

⁶ Vested assets involve the transfer of ownership or control of assets by a third party to a public sector entity. In the case of local authorities it includes the transfer of roads and land from developers, or special purpose (restricted use) transfers such as reserve land.

IE37 to IE42). This issue is discussed again in the section of this issues paper dealing with the interaction between IPSAS 23 and other standards.

28. Splitting transactions into components is a useful approach when it is clear that there is an exchange component and a non-exchange component, and where the IPSASB considers that it is appropriate to recognize the non-exchange component. However, the ability to split transactions into components does not solve the issue that some transactions are hard to classify. For example, an individual or entity may be required to pay fees to a public sector entity to undertake a specific activity (that is, the entity is, or acts in a similar way to, a regulator). The fees may include some benefit to the individual or entity. For example, audit and health profession regulators may provide some “membership services” to auditors and healthcare professionals registered with them. They may also provide “inspectorate” and “monitoring” type services which they undertake in the public interest, which enhances the credibility of the profession generally rather than providing a benefit to any specific individual or entity.

What Could We Do?

29. If the IPSASB decides to adopt a performance obligation approach to the recognition of revenue with performance obligations, this would address some, but not all, classification issues. For example, some transactions where a public sector entity receives revenue to provide goods or services to someone other than the funder, may have a sufficiently specific performance obligation that it would be possible to account for them using a performance obligation approach.
30. As discussed in the June agenda paper, a performance obligation approach is unlikely to be appropriate for all revenue transactions in the public sector, and two revenue standards, or at least two sets of revenue requirements, would be required. As long as there are two sets of revenue requirements there will still be situations where judgment is required in deciding which set of requirements to apply. For example:
 - (a) In the case of a regulatory body charging levies to cover a range of services and regulatory functions it may be difficult to identify whether there is a clear performance obligation. It may also be difficult in the context of an IFRS 15 approach to identify whether a good or a service is being provided (for example, a license to operate or undertake a specific activity, membership and other services, or a combination).
 - (b) In cases where an entity receives a grant to carry out certain activities it may be difficult to determine whether there is a sufficiently specific performance obligation.
31. The question is whether a performance obligation/ no performance obligation split would lead to fewer scope debates than the current exchange/non-exchange split. Depending upon how clearly the IPSASB is able to define a performance obligation, we think performance obligation/ no performance obligation split could result in fewer scope debates.
32. Given that there will always be some cases where judgment is required, the IPSASB could consider requiring disclosure about the judgments applied in assessing whether a performance obligation exists or not. Some IPSASs already require disclosures about key judgments in relation to specific accounting policies and IPSAS 1, *Presentation of Financial Statements* (paragraphs 137-139) contains a general disclosure requirement about key judgments made in applying accounting policies.

Link to Non-Exchange Expenses Project

33. Under current IPSASs a transaction that is classified as a non-exchange transaction is likely to give rise to non-exchange revenue for one entity and a non-exchange expense for another entity. Where such transactions take place between two public sector entities, the IPSASB is interested in identifying whether symmetrical accounting would occur.
34. The criteria for classifying revenue transactions could affect both the accounting treatment and the disclosures required and could therefore have an impact on symmetry. If both projects use the same concept of performance obligations this would increase the likelihood of symmetrical accounting. Further work on both projects would be required before we could assess the impact of classifications on symmetry.

Link to Examples

35. Agenda paper 7.1 includes examples of transaction between public sector entities. Examples with performance obligations are:
 - (a) Example 1 Vaccination Grant (performance obligation with no additional factors);
 - (b) Example 2 Mental Health Services (performance obligation with eligibility requirement);
 - (c) Example 3 Dental Services (performance obligation with timing restriction);
 - (d) Example 4 Funding Road Construction (performance obligation with appropriation);
 - (e) Example 9 Research Agreement: Health (performance obligation with eligibility requirement); and
 - (f) Example 10 Research Agreement: Science (performance obligation with timing requirement).
36. We think it would be helpful to consider the application of a performance obligation approach (along the lines of IFRS 15) and an IPSAS 23 approach to each of these examples. This exercise would help us to:
 - (a) Clarify what we mean by “a sufficiently specific performance obligation”. That is, what factors would need to be present for a performance obligation approach to be appropriate; and
 - (b) Consider the possible differences in accounting treatment depending upon the approach used.

Matter(s) for Consideration

1. Would applying a performance obligation approach (along the lines of IFRS 15) and an IPSAS 23 approach to a range of transactions be a useful way to clarify the transactions for which a performance obligation approach would be appropriate?
2. Is there any other work that would help the IPSASB consider when a performance obligation approach would be appropriate?

Interaction between IPSAS 23 and Other Standards

37. Some constituents have suggested that the interaction between IPSAS 23 and other standards should be reviewed. The purpose of this section is to give the IPSASB an overview of how IPSAS 23 interacts with other standards and identify any issues that should be addressed as part of the revenue project.
38. When IPSAS 23 was first developed, it included requirements on the initial recognition and measurement of donated inventory and property, plant and equipment. Over time, as the IPSASB developed IPSASs on more topics, it thought more about the interaction between IPSAS 23 and other standards and amended aspects of IPSAS 23. Table 4 below outlines the main interactions between the requirements of IPSAS 23 and other IPSASs.

Table 4

IPSAS	Treatment of transactions giving rise to non-exchange revenue
IPSAS 9, <i>Revenue from Exchange Transactions</i>	<p>The scope of IPSAS 9 is limited to revenue arising from certain <u>exchange</u> transactions and events.</p> <p>The standard therefore includes definitions of the terms exchange, and non-exchange.</p>
IPSAS 12, <i>Inventories</i>	<p>Inventories are generally measured at the lower of cost and net realizable value (paragraph 15).</p> <p>The cost of inventories acquired through a non-exchange transaction is their fair value as at the date of acquisition (paragraph 16).</p> <p>Inventories held for distribution at no charge or nominal charge are measured at the lower of cost and current replacement cost (paragraph 17).</p>
IPSAS 13, <i>Leases</i>	<p>IPSAS 13 does not address the possibility of revenue arising from a lease that includes an intentional donation component.</p> <p>The Australian Accounting Standards Board's recent Exposure Draft, ED 260 <i>Income of Not-for-Profit Entities</i> (ED 260), proposes to require recognition of intentional donation components in finance lease transactions.</p>
IPSAS 16, <i>Investment Property</i>	<p>Investment property is generally measured initially at cost (including transaction costs) (paragraph 26).</p> <p>The cost of investment property acquired through a non-exchange transaction is its fair value as at the date of acquisition (paragraph 27).</p>

IPSAS	Treatment of transactions giving rise to non-exchange revenue
<p>IPSAS 17, <i>Property, Plant and Equipment</i></p>	<p>An item of property, plant, and equipment that qualifies for recognition is generally measured initially at its cost (paragraph 26). The cost of an asset acquired through a non-exchange transaction, is its fair value as at the date of acquisition (paragraph 27).</p> <p>IPSAS 23 (paragraph 13) also specifies requirements on accounting for costs associated with the acquisition of an asset in a non-exchange transaction. It states that “if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant”.</p>
<p>IPSAS 27, <i>Agriculture</i></p>	<p>Paragraph 17 of IPSAS 27 requires that biological assets acquired through a non-exchange transaction be subject to the same initial measurement requirements as biological assets acquired in other ways. Therefore they would be measured at fair value less costs to sell.</p> <p>Paragraph 34 of IPSAS 27 requires that biological assets whose fair value less costs to sell cannot be reliably measured, be measured at cost less any accumulated depreciation and any accumulated impairment losses. However, this exception would not appear to be available for biological assets acquired through a non-exchange transaction because, in accordance with IPSAS 23, they may be recognized only when their fair value can be measured reliably.</p> <p>In developing IPSAS 27 the IPSASB concluded that IPSAS 23 implies that an entity recognizing donated biological assets should also consider the measurement requirements in other standards. This is explained in IPSAS 27 (paragraph BC9).</p>
<p>IPSAS 28, <i>Financial Instruments: Presentation</i></p>	<p>In developing IPSAS 28 the IPSASB considered whether non-exchange revenue transactions could give rise to financial assets and financial liabilities. The IPSASB concluded that:</p> <ul style="list-style-type: none"> • Assets arising from non-exchange revenue transactions could be financial assets (IPSAS 28 paragraph BC19); and • Liabilities arising from non-exchange revenue transactions are not generally financial liabilities. However, the IPSASB acknowledged that there may be rare instances where such transactions may give rise to financial liabilities and suggested that consideration of such issues could be considered in a future project (IPSAS 28 paragraphs BC22 and BC23). <p>The IPSASB acknowledged one example where a non-exchange revenue transaction could give rise to a financial liability. This is where one entity transfers funds to another entity, with a condition that those funds are to be forwarded to particular groups of people.</p>

IPSAS	Treatment of transactions giving rise to non-exchange revenue
<p>IPSAS 29, <i>Financial Instruments: Recognition and Measurement</i></p>	<p>In developing IPSAS 29 <i>Financial Instruments: Recognition and Measurement</i> the IPSASB agreed to exclude from the scope of IPSAS 29 rights and obligations that fall within the scope of IPSAS 23 (IPSAS 29 paragraph 2(j)).</p> <p>Consistent with its conclusions on IPSAS 27 <i>Agriculture</i>, the IPSASB agreed that financial assets that are recognized in accordance with IPSAS 23 should initially be measured in accordance with IPSAS 23 <u>and</u> IPSAS 29. IPSAS 29 paragraph AG 81 explains that this means the asset is measured at fair value in accordance with the principles in IPSAS 23 and taking account of transaction costs where appropriate.</p> <p>Because the IPSASB concluded in IPSAS 28 that liabilities arising from non-exchange revenue transactions are generally <u>not</u> financial liabilities, IPSAS 29 (paragraph AG6) does not provide any guidance on the initial measurement of financial liabilities arising from non-exchange transactions. If an entity has recognized a liability in respect of a condition on a cash transfer and subsequently decides that it will be required to return the funds to the donor, that liability falls within the scope of IPSAS 29 and is recognized and measured in accordance with that standard (refer IPSAS 29 paragraph AG6).</p> <p>IPSAS 29 specifies requirements for the recognition and measurement of concessionary loans (paragraphs AG84 to AG90). IPSAS 29 also amended IPSAS 23 to clarify that concessionary loans are split into an exchange component and a non-exchange component.</p> <p>In the case of a concessionary loan received by an entity:</p> <ul style="list-style-type: none"> • The difference between the fair value of the loan and the transaction price (the loan proceeds) is accounted for in accordance with IPSAS 23. This is sometimes referred to as the off market portion. • The exchange component is recognized and initially measured in accordance with IPSAS 29. <p>After initial recognition, concessionary loans received are measured in accordance with IPSAS 29.</p>
<p>IPSAS 30, <i>Financial Instruments: Disclosures</i></p>	<p>IPSAS 30 requires disclosures in respect of concessionary loans granted. It does not require disclosure of concessionary loans received.</p>
<p>IPSAS 31, <i>Intangible Assets</i></p>	<p>An intangible asset is generally measured initially at cost. The initial cost of an intangible asset acquired through a non-exchange transaction is its fair value as at the date of acquisition (paragraph 31).</p>

IPSAS	Treatment of transactions giving rise to non-exchange revenue
	<p>The use of fair value on initial recognition of an intangible asset acquired through a non-exchange transaction does not constitute a revaluation (paragraph 43).</p> <p>The initial measurement of an intangible asset arising from non-exchange transactions is determined in accordance with the requirements in both IPSAS 23 and IPSAS 31. Therefore an entity considers directly attributable costs specified in IPSAS 31 (paragraph BC8).</p>
IPSAS 32, <i>Service Concession Arrangements: Grantor</i>	When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with IPSAS 23 (paragraph AG64).

39. Table 4 demonstrates that the IPSASB has considered the interactions between a number of standards and IPSAS 23. Points to note are:
- (a) The IPSASB has tried to align initial measurement requirements, particularly when one standard specifies that transaction costs are to be taken into account when determining the fair value of an asset.
 - (b) The IPSASB has chosen not to provide guidance on the recognition of a financial liability as a result of a non-exchange revenue transaction, on the grounds that this would be rare.
 - (c) IPSAS 13 *Leases* does not address the possibility of revenue arising from a finance lease or an operating lease that includes a non-exchange component.
 - (d) IPSAS 23 does not discuss accounting for the right to use assets.

What Could We Do?

40. The matters that we think should be addressed as part of developing new or revised revenue standards are:
- (a) The recognition of a financial liability as a result of a non-exchange revenue transaction;
 - (b) The recognition of revenue arising from a finance lease that includes a non-exchange component; and
 - (c) The right to use assets.
41. Work on these issues might result in requirements being included in the revenue standards, consequential amendments to other standards, or the development of implementation guidance.
42. Some public sector standard setters or public sector entities have already done some thinking on these issues. Relevant proposals or guidance that we have identified are discussed below.

Financial Liability

43. The Australian Accounting Standards Board's ED 260 (April 2015) proposed requirements for a range of revenue transactions of not-for-profit entities, including public sector entities. However, ED 260 did not propose any changes to the Australian equivalent of IFRS 9 *Financial Instruments* for the initial recognition of a financial liability from a transaction involving a donation. The Board did not consider that such a change was necessary (ED 260, paragraph BC76). Paragraph B5.1.1 of IFRS 9 is the relevant paragraph for identifying a donation arising in relation to a financial instrument, and this paragraph does not refer to an evidence threshold for measuring a financial instrument at a different amount than transaction price (plus or minus transaction costs) at initial recognition. IFRS 9, paragraph B5.1.1 states that:

The fair value of a financial instrument at initial recognition is normally the transaction price However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument."

44. The IPSASB has not yet considered IFRS 9. The IPSASB might prefer to consider this issue when it reviews its standards on financial instruments.

Finance Lease

45. The Australian Accounting Standards Board's ED 260 (April 2015) proposed to amend the Australian standard dealing with leases to require finance leases that include a donation by the lessor to initially be measured at fair value. That ED assumes that the transaction is at fair value unless it is clear that an entity intended to make a donation. It gives examples of when it would be evident that an entity intended to make a donation. Consequently, an entity would be required to estimate the fair value of an asset on initial recognition only when there are indications that the consideration paid or payable was intentionally less than fair value. The IASB has a current project to update its leasing standard, and the IPSASB is committed to reviewing IPSAS 13 once the new IFRS is issued. Depending on the timing of the various projects, it might be simpler to address donations in a finance lease in the review of IPSAS 13.

Rights to Use Assets

46. IPSAS 23 discusses the treatment of goods in-kind and services in-kind but it does not specifically discuss rights to use assets. The Conceptual Framework does discuss rights to use resources. The definition of an asset in the Conceptual Framework refers to "a resource". The explanation of "a resource" in paragraph 5.7 of the Conceptual Framework states that "A resource is an item with service potential or the ability to generate economic benefits. Physical form is not a necessary condition of a resource. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the *rights to use* the resource." (emphasis added)
47. Those that have addressed (or developed proposals for) rights to use assets are:
- (a) United Nations IPSAS Implementation Project;
 - (b) South African Accounting Standards Board; and
 - (c) Australian Accounting Standards Board.

48. United Nations agencies often receive assistance in the form of use of premises and utilities. The *United Nations' Policy Framework for International Public Sector Accounting Standards* (second edition, 2013) contains guidance on the free or subsidized provision of utilities, maintenance and right to use premises. This guidance:
- (a) Identifies thresholds for the recognition and measurement of such transactions;
 - (b) Requires that short-term donated rights to use arrangements (and long-term arrangements where the United Nations agency does not have exclusive or joint exclusive control) be treated similarly to operating leases with the assessed commercial rent being recognized as revenue and an expense; and
 - (c) Requires that long term donated rights to use buildings (of specified length and where the United Nations agency has exclusive or joint exclusive control) be capitalized and depreciated. Revenue is recognized at the same time as the depreciation.
49. The South African Accounting Standards Board has recently amended GRAP 23, its equivalent of IPSAS 23, to specifically address revenue arising from the use of assets in a non-exchange transaction. The South African Accounting Standards Board has clarified its standard by explaining that services in-kind include the use of assets and included examples.
50. The Australian Accounting Standards Board issued ED 260 in April 2015. ED 260 did not specifically discuss donated rights to use assets. However, it contained broad proposals regarding identifiable donation component of contracts with customers and transactions with donation elements which would seem to encompass non-exchange transactions involving the use of assets.

Link to Non-Exchange Expenses Project

51. The non-exchange expenses project will also need to consider the interaction of various standards and any proposals for non-exchange expenses. For example, IPSAS 12, *Inventories* states that inventories shall be measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for a nominal charge.
52. When the non-exchange transactions discussed in this section are between two public sector entities, the non-exchange expense of one entity could be the non-exchange revenue of the other. For example, if the forgiveness of a loan and the transfer of inventories for no or nominal amounts give rise to revenue for one entity they would also give rise to an expense for another entity.
53. There might be some situations where the amount of expenses and revenue or the timing of recognition might differ. For example,
- (a) An entity giving away an asset would derecognize the asset in accordance with the relevant standard. The entity receiving the asset would be required to recognize the asset, but it might have a policy of not capitalizing assets worth less than, say, CU \$1,000.
 - (b) An entity forgiving a loan might derecognize the loan before the entity having the loan forgiven.

Link to Examples

54. Example 8 in agenda item 7.1 deals with the forgiveness of a loan. All of the other examples identified in agenda item 7.1 deal with situations where the recipient receives cash.

55. As part of the revenue project we will also look at examples of transactions where the recipient receives assets or rights to use assets. However, many of the interactions between IPSAS 23 and the IPSASs dealing with assets have already been addressed by the IPSASB.

Matter(s) for Consideration

3. Does the IPSASB agree that the revenue project should consider the following issues:
- (a) The recognition of a financial liability as a result of a non-exchange revenue transaction;
 - (b) The recognition of revenue arising from a finance lease that includes a non-exchange component; and
 - (c) The right to use assets.
4. Are there any other "IPSAS 23 interaction issues" that should be considered?

Services In-Kind

56. IPSAS 23 (paragraph 98) permits, but does not require, the recognition of revenue for services in-kind. Paragraph 108, however, encourages the disclosure of the nature and type of services in-kind received during the reporting period. The Basis for Conclusions (paragraph BC25) explains why the IPSASB took this position in IPSAS 23.

BC25. This Standard permits, but does not require, recognition of services in kind. This Standard takes the view that many services in-kind do meet the definition of an asset and should, in principle, be recognized. In such cases there may, however, be difficulties in obtaining reliable measurements. In other cases, services in-kind do not meet the definition of an asset because the reporting entity has insufficient control of the services provided. The IPSASB concluded that due to difficulties related to measurement and control, recognition of services in-kind should be permitted but not required.

57. Some respondents to the IPSASB's work plan consultations noted that services in kind could be a significant part of the resources used by an entity.
58. Paragraph 103 of IPSAS 23 does suggest that it would be appropriate for some entities to recognize services in kind, but this is merely a suggestion. It is not a requirement.

103. In developing an accounting policy addressing a class of services in-kind, various factors would be considered, including the effects of those services in-kind on the financial position, performance, and cash flows of the entity. The extent to which an entity is dependent on a class of services in-kind to meet its objectives, may influence the accounting policy an entity develops regarding the recognition of assets. For example, an entity that is dependent on a class of services in-kind to meet its objectives, may be more likely to recognize those services in-kind that meet the definition of an asset and satisfy the criteria for recognition. In determining whether to recognize a class of services in-kind, the practices of similar entities operating in a similar environment are also considered.

59. Although the IPSASB did not have a Conceptual Framework when IPSAS 23 was issued, paragraph 101 of IPSAS 23 did consider the definition of an asset and recognition criteria for assets set out in IPSAS 1. IPSAS 23, paragraph 101, noted that:
- (a) Some services in-kind would not meet the definition of an asset because the recipient entity has insufficient control over the services provided;

- (b) Some services in-kind would not meet the recognition criteria for assets because it would not be possible to measure them reliably; and
 - (c) Some services in-kind would not be material.
60. Another possible consideration not mentioned in IPSAS 23 is that there could be situations where it is possible to obtain reliable measurements, but at considerable cost. The IPSASB's Conceptual Framework explains that the IPSASB may consider cost-benefit arguments when establishing requirements in IPSASs.

What Could We Do?

61. We could re-examine whether the revenue for services in-kind should be recognized in some circumstances.
62. Two public sector standard setters have recently proposed other requirements for the recognition of services in-kind.
- (a) The South African Accounting Standards Board has recently amended GRAP 23, its equivalent to IPSAS 23, to require the recognition of services received in kind (other than financial guarantee contracts) when they are significant in relation to an entity's operations and/or service delivery objectives and the recognition criteria are met. The nature and type of services in-kind that are not recognized must be disclosed.
 - (b) The Australian Accounting Standards Board's ED 260 proposed that public sector entities be required to recognize volunteer services (services in-kind) if those services can be measured reliably and the services would have been purchased if they had not been donated. It is worth noting that this is an existing requirement in Australian standards for public sector entities. For not-for-profit entities in the private sector the Australian Accounting Standards Board essentially proposed an IPSAS 23 approach – it proposed to permit, but not to require such entities to recognize volunteer services. Despite proposing two different sets of requirements for different types of not-for-profit entities, the Australian Accounting Standards Board also asked constituents whether there should be one set of requirements for all not-for-profit entities.

Link to Non-Exchange Expenses Project

63. Volunteer services may be provided by individuals, private sector entities or public sector entities. If one public sector entity provides services free of charge to another public sector entity, the question is how it would classify and disclose those expenses. At present IPSASs permit the recognition of revenue from volunteer services but do not provide guidance on the classification and disclosure of the related expense.

Link to Examples

64. There are no examples dealing with services in-kind in agenda paper 7.1.

Matter for Consideration

- | |
|--------------------------------------------------------------------------------------------|
| 5. Should the treatment of services-in kind be re-examined as part of the revenue project? |
|--------------------------------------------------------------------------------------------|

Capital Grants

65. A capital grant is a contribution, usually by a government to an independent public sector entity to cover part of the cost of the latter's facilities. Examples include capital grants from a government to a school or university to acquire or construct buildings or capital grants from a government to another level of government for the construction of roads. Usually they come with a requirement that the public sector entity use the asset financed by the capital grant, for the intended purpose, for a period of time.
66. Under IPSAS 23 the recipient would recognize revenue as it acquired or constructed the asset (typically over one or two years). It would then depreciate the asset over its useful life. Accounting for such transactions under IPSAS 23 can have a significant impact on the recipient's financial performance. It can lead to substantial revenue (and surpluses) in one financial year and substantial depreciation and amortization expenses in the following financial years. The IPSASB has previously discussed this type of transaction and noted that some consider the IPSAS 23 treatment does not faithfully depict an entity's financial performance. A respondent to the 2012 and 2014 Work Program and Strategy Consultations commented on this type of situation and indicated the desirability of consistent accounting on both sides of the transaction for consolidation purposes.
67. The IPSASB included a capital grant example in the Consultation Paper, *Elements and Recognition in Financial Statements* (December 2010). The purpose of including the example was to seek feedback on whether the Conceptual Framework should include elements referred to as deferred inflows and deferred outflows. The details of Example 1 in the 2010 Consultation Paper were as follows:
- In 20X1 public sector entity X received a CU2,000 grant to finance the construction of a public library. The grant required repayment of the full amount only if the funds were not used to construct the library. The grant did not relate to the library's operations. The library was completed and paid for at the end of 20X2 and was expected to have a 40-year useful life.
68. The IPSASB sought feedback on two approaches to reporting the transaction. One approach recognized the revenue when the library was constructed (as per the IPSAS 23 treatment noted above). The other approach recognized the revenue over the life of the library.
69. Following consideration of feedback received on both the 2010 Consultation Paper and the subsequent 2012 Exposure Draft dealing with elements and recognition, the IPSASB did not define deferred inflows and deferred outflows as elements. The IPSASB's deliberations are discussed in the Conceptual Framework paragraphs BC5.38 to BC5.58. Instead, the Conceptual Framework (paragraph 5.4), states that certain economic phenomena that do not meet the definition of any element may need to be recognized in financial statements in order to meet the objectives of financial reporting. Paragraph 5.4 is shown below.

Extract from the Conceptual Framework (October 2014)

- 5.4 In some circumstances, to ensure that the financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements as defined in this Chapter may be necessary. Consequently, the identification of the elements in this Chapter does not preclude IPSASs from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this

Chapter (hereafter referred to as “other resources” or “other obligations”) when necessary to better achieve the objectives of financial reporting.

70. If the IPSASB decided to adopt a performance obligation approach for some revenue, it would need to decide whether any capital grants could fall within the scope of that standard. However, the treatment of capital grants (with conditions to use the funds as specified, or return them), under a performance obligation approach (along the lines of IFRS 15) would most likely be similar to that required by IPSAS 23. Even if the requirement to use the grant for the construction of a specific asset were treated as a performance obligation, the recipient would still recognize revenue once the asset had been constructed.
71. However, some might argue that there is a performance obligation to use the asset funded by the capital grant over the life of the asset.

What Could We Do?

72. What we do in the revenue project depends on whether the IPSASB considers that the current treatment of capital grants under IPSAS 23 (or possible treatment under a performance obligation approach) results in information that is “useful for a meaningful assessment of the financial performance and financial position of an entity”. If the IPSASB considers that capital grants might give rise to “other resources” and “other obligations” we could do more work on this aspect.
73. We will also document the treatment of capital grants under GFS Reporting Guidelines.

Link to Non-Exchange Expenses Project

74. If a capital grant gives rise to revenue for one public sector entity it will give rise to an expense for another entity. A capital grant would normally be a non-exchange transaction. However, it is possible that, as part of an exchange transaction, one entity could agree to give another entity a capital grant in return for services.

Link to Examples

75. Example 4 of agenda paper 7.1 involves a capital grant for the cost of constructing roads.

Matter(s) for Consideration
6. Does the IPSASB have concerns about the current treatment of capital grants under IPSAS 23 (or the possible treatment under a performance obligation approach)?
7. If yes, should the possibility of recognizing other resources and other obligations be considered?

The Conceptual Framework

76. There are a number of factors that led the IPSASB to begin work on the revenue project. These factors include comments from constituents regarding improvements to IPSAS 23 and the IASB’s completion of IFRS 15. Another key driver is the completion of the Conceptual Framework and the opportunity to think about revenue issues using the ideas in the Conceptual Framework. Appendix B to this paper provides a quick recap of areas of the Framework that will be relevant to this project.
77. The preceding sections of this issue paper considered comments from constituents and touched on areas where we will need to apply the thinking in the Conceptual Framework. Other major issues that will need to be considered include:

- (a) How much guidance to provide in revenue standards regarding whether a transaction gives rise to revenue or an ownership contribution;
 - (b) The recognition and initial measurement of taxes;
 - (c) Revenue which, under IPSAS 23, is recognized prior to the period to which it relates, or in which it is permitted to be used; and
 - (d) If the IPSASB decides to adopt a performance obligation approach for some revenue, how this would affect references to exchange and non-exchange transactions in IPSASs.
78. A few comments on these points follow.
79. Important tax revenue issues include:
- (a) Deciding what is the initial event that gives rise to tax revenue;
 - (b) Deciding at what point tax revenue should be recognized – reliable measurement is a key consideration for tax revenue; and
 - (c) The need for information on total taxes levied for accountability purposes (IPSAS 23 uses the term “tax gap” to refer to the difference between the amount that a government is entitled to collect and the amount that will be collected).
80. The Consultation Paper, *Elements and Recognition in Financial Statements* (December 2010) included an example of tax revenue levied and recognized prior to the year to which it related. The details of Example 2 in the 2010 Consultation Paper were as follows:
- Based on law, on January 1, Year 20X1, 20X2, and 20X3, Government Y levies a property tax of CU100 each for the years 20X1, 20X2, and 20X3 respectively. In 20X3, the law is changed so that a CU100 tax for 20X4 is levied on December 1, 20X3 instead of January 1, 20X4. Government Y follows a policy of recognizing the tax asset (taxes receivable) in the period the tax is levied.
81. The purpose of including the example was to seek feedback on whether the Conceptual Framework should include elements referred to as deferred inflows and deferred outflows. The question was how much revenue the government should recognize in Year 3: CU100 or CU200?
82. There are other situations where application of IPSAS 23 can give rise to large revenues (and surpluses) in some years and low revenues (and possibly deficits) in other years. These include:
- (a) Capital grants (as discussed earlier in this paper);
 - (b) Grants relating to a number of years which are paid up front;
 - (c) Grants which are confirmed and paid towards the end of one period but to be used in the next;
 - (d) Grants from one level of government to another where some is paid in advance, and that advance payment takes account of the current cash flow situation of the subnational government and varies from year to year.
83. The examples in the preceding paragraph may, or may not, have performance obligations. That is why we think it would be helpful to consider both whether a performance obligation approach could be applied to those situations, and how they would be accounted for under IPSAS 23.

84. There is an example in agenda paper 7.1 that deals a grant that is paid in the year before the agreed services are to be provided (Example 3: Dental services (performance obligation with a timing restriction)).
85. The discussion of the key characteristics of public sector entities in the Preface to the Conceptual Framework, including the discussion of non-exchange transactions, highlights aspects of the public sector environment that the IPSASB needs to consider when setting standards. One aspect of the public sector environment is that many transactions are non-exchange transactions. In asking the IPSASB to consider a performance obligation approach for a wider group of transactions than currently accounted for under IPSAS 9, we are suggesting that there is likely to be a subset of non-exchange transactions where focusing on the satisfaction of performance obligations could lead to a more faithful representation of the transaction. The implication of such a change is that we would need to be careful how we used the terms exchange and non-exchange in certain IPSASs. However, it would not change the fact that the term “non-exchange” remains a useful descriptor of many public sector transactions.

Matter for Consideration

8. Are there any further issues that should be considered in the revenue project?

Next Steps

86. In this paper we have sought direction on the issues that should be considered in the revenue project and some feedback on the type of work that should be done to examine those issues. We have also tried to identify links to the non-exchange expenses project.
87. Together with the issues that were considered in June, we hope that this paper will assist the Board in providing directions on issues to be considered and work to be undertaken, and which issues should be given priority.
88. At this stage we consider that the papers for the next meeting should focus on identifying the types of performance obligations that would be sufficiently specific to develop revenue requirements based around the satisfaction of a performance obligation.
89. At the next meeting the IPSASB will be asked to decide whether to issue a consultation paper as part of this project.

Matter(s) for Consideration

9. Are there any further issues that should be considered in the revenue project?
10. Which issues should be addressed first? For example, is further work on the concept of a performance obligation a priority for the next meeting?
11. What does the IPSASB require in the December agenda papers to help it make a decision about whether to issue a consultation paper?

Appendix A

This appendix sets out comments on IPSAS 23 by respondents to the IPSASB's 2012 Work Plan Consultation and 2014 Strategy Consultation.

<i>Consultation on the IPSASB Work Program 2013-14 (July 2012) – Comments on IPSAS 23</i>
<p>002</p> <p><u>Investment grants</u></p> <p>While investment grants are dealt with in IPSAS 23, this is confined to the recipient. The paying side is not considered. It is desirable, above all for statistical purposes, that investment grants are recorded symmetrically by donor and recipient and depreciated using the same method.</p> <p><i>2012 staff comment: To be considered in the context of the GFS alignment project.</i></p>
<p>008</p> <p>Non-exchange transactions represent in most public sector entities the majority of business transaction. This is also the case in the European Union institutions where more than 95% of the transactions recorded in the financial statements are of a non-exchange nature. The issuance of IPSAS 23 was a milestone in reporting on non-exchange transactions but indeed practise might show that the compatibility with other IPSASs needs to be addressed. Therefore, although we recognise that it would mean work on already existing IPSASs, we strongly encourage the Board to look at this as it is an essential standard for many public sector entities.</p>
<p>010</p> <p>Our constituents have recently adopted the local equivalent of IPSAS 23. In applying this Standard, a number of issues have been identified:</p> <ul style="list-style-type: none">• We have a number of arrangements in place where entities provide services to other entities which currently do not meet the strict description of “services in-kind” in IPSAS 23. IPSAS 23 describes services in-kind as those services provided by an individual. In many instances, entities make assets available to other entities to use in their operations, most often, land and buildings. In these instances, because the entity only has a right to use an asset and not the underlying asset, these transactions do not qualify as “goods in-kind”, but, the transaction is also not consistent with the description of “services in-kind”. The use of other entities’ assets at no charge is an area that we believe should be considered in the revision to IPSAS 23.• In addition to these arrangements, entities may also agree to pay or share the salary costs of employees and other operational costs. For individual entities, this could represent a significant amount of their expenditure. As IPSAS 23 currently does not require the recognition of elements related to the receipt of services in-kind, fair presentation may not be achieved in many instances. Although IPSAS 23 does indicate that if these services critical to an entity's operation then recognition should be considered, this is not considered strong enough. As a result, we would also urge the IPSASB to reconsider the current requirements of IPSAS 23 in this regard.• As transfers which are not subject to conditions are recognised as revenue in the year that they accrue, it is possible that an entity may have a large surplus in a year, and a large deficit in another when the related expenditure is incurred. While we agree that this reflects the events that occurred

Consultation on the IPSASB Work Program 2013-14 (July 2012) – Comments on IPSAS 23

in the relevant periods, entities have indicated to us that users misinterpret or do not fully understand what this surplus or deficit means and why it could vary from one year to the next. We are of the view that the disclosure requirements, both in IPSAS 23 and IPSAS 1, could be enhanced to make this clearer to users.

Apart from these issues, there is a potential opportunity to align the accounting principles for exchange and non-exchange revenue, depending on the direction taken by the IASB on its revenue project. Any revisions to IPSAS 23 may also be dependent on the outcome of Phase 2 of the Conceptual Framework project, particularly in relation to deferred inflows and outflows.

022

There are complaints that IPSAS 23 is complicated and difficult to understand. In our view, one of the reasons is that IPSAS 23 deals with tax revenue and transfer in one standard. Because tax and transfer are different in nature, we suggest that IPSASB should reconsider its description on the basis of the difference in nature, or deal with these issues in a separate standard.

In addition, when the IASB finalizes its exposure draft, "Revenue from Contracts with Customers," IPSASB has to revise the IPSAS 9 and 11, to converge with the new IFRS.

We believe that IPSASB should revise both of the standards at the same time, in order to keep consistency of technical terms and concepts between "Revenue from Exchange Transactions" and "Revenue from Non-Exchange Transactions."

029

Clarifications are needed in a number of areas; and consistency in principles for non-exchange transactions across the suite of IPSASs is crucial. We propose that the IPSASB consider the review of IPSAS 23 concurrently with the elements phase of the Conceptual Framework, and issue consequential amendments to IPSAS 23 as a result of decisions taken for the definition of revenue in the Conceptual Framework project.

In addition, in order to maintain convergence with IFRSs, the definition of revenue and principles for revenue recognition needs to be considered as the IASB and FASB continue developing new guidance for revenue recognition.

036

The issue of accounting and reporting of donated rights to use assets where nominal or no rent is paid, including cases where the asset is shared by multiple entities, is a common occurrence in the public sector which should not be overlooked. The Task Force encourages the IPSASB to consider this issue either as a potential new project or to add it to the scope of existing potential project (for example, within the 'Improvements to IPSAS 23 – Non-Exchange Revenues').

Consultation on the IPSASB Strategy Consultation 2015 Forward (2014) – Comments on IPSAS 23

007

We are particularly interested in a project to consider revenue. In our view, such a project should encompass both exchange and non-exchange revenue, considering the implications of IFRS 15 *Revenue from Contracts with Customers* and re-considering IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

We consider that a convergence project to consider the implications of IFRS 15 should have a high priority now that the IASB has issued the final standard.

In considering IPSAS 23, a number of issues have been raised by our constituents, these include improving the distinction between exchange and non-exchange revenue, recognition of revenue depending on the conditions attached, and eliminating inconsistencies within the Standard. We note the revision of these standards will be influenced by the final Conceptual Framework.

In our view, there are synergies between the two standards which lends itself to being considered as one project.

011

Non-exchange Expenses: This wish was expressed already in the consultation to Work Program 2013-2014. Already at the time it was considered important that there is a counterpart to IPSAS 23 Non-exchange Revenues. Furthermore in Switzerland transfer payments, in particular in the form of investment contributions, are of great importance.

014

8.8 While the consultation document did not outline the specific examples or issues that require amendment to IPSAS 23, we believe that amendments are needed in certain areas based on our experience in applying an equivalent IPSAS 23.

8.9 Our constituents have applied the equivalent of IPSAS 23 for some time. One of the key issues we have identified during the application of that Standard is the treatment of services in kind. Some of our entities receive significant services in kind, e.g. secondment of staff from other entities or are provided free office accommodation. Where the receipt of these services is significant to an organisation, merely encouraging disclosure of these services is insufficient. In these instances, we believe recognition should be mandatory.

8.10 We have also identified a few minor changes which could be effected to IPSAS 23. 8.11 In principle, we support initiating this project, and believe it would be useful to request jurisdictions which have applied IPSAS 23 to provide information to the IPSASB about application issues they have experienced.

8.12 Given the recent approval of IFRS 15 *Revenue from Contracts with Customers*, and the withdrawal of IAS 18 *Revenue* and 11 *Construction Contracts* by the IASB, we support a revision of the equivalent IPSASs. We would however urge the IPSASB to consider whether using one approach to the recognition of all types of revenue (exchange and non-exchange) is feasible. As such we support a broader revision of the package of revenue standards.

Consultation on the IPSASB Strategy Consultation 2015 Forward (2014) – Comments on IPSAS 23

017

Revenue from non-exchange transactions (IPSAS 23). The recently issued IFRS 15 on revenue provides a suitable trigger for the IPSASB to consider revisiting this controversial standard. The Board should, in particular, consider whether there is any justification for differences between IFRS 15 and IPSASs in this area

023

IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers), which is a standard for revenue recognition by public sector entities, should be developed independently for the following reasons

- 1) The revenue recognition flow significantly differs from that under IPSASs 9 and 11.
- 2) We think it is appropriate that IPSAS 23 provides an accounting treatment for deferred items now under consideration in the context of “Elements and Recognition in Financial Statements” as Phase 2 of the Conceptual Framework.

030

IPSASB should give more detail about Central Government transfers

031

We believe that non-exchange revenues are generally significant in the public sector. We believe that alignment to the Conceptual Framework will be urgent.

The inconsistencies pointed out between IPSAS 23 and other IPSASs indicate that there is a gap in standards.

We are not aware of any possible IFRS convergence.

Appendix B Conceptual Framework

This Appendix summarises key aspects of the Conceptual Framework in relation to definitions of elements, recognition and measurement.

Overview of Conceptual Framework	
Definitions	<p>Asset: A resource presently controlled by the entity as a result of a past event (Conceptual Framework, paragraph 5.6).</p> <p>Liability: A present obligation of the entity for an outflow of resources that results from a past event (Conceptual Framework, paragraph 5.14).</p> <p>Liabilities can be legal or non-legally binding obligations (Conceptual Framework, paragraph 5.18).</p> <p>Revenue: Increases in the net financial position of the entity, other than increases arising from ownership contributions (Conceptual Framework, paragraph 5.29).</p> <p>Expense: Decreases in the net financial position of the entity, other than decreases arising from ownership distributions (Conceptual Framework, paragraph 5.30).</p>
Description of recognition	<p>Recognition is the process of incorporating and including in amounts displayed on the face of the appropriate financial statement an item that meets the definition of an element and can be measured in such a way that achieves the qualitative characteristics and takes account of the constraints on information included in general purpose financial reports (Conceptual Framework, paragraph 6.1).</p>
Recognition criteria	<p>The recognition criteria are that:</p> <ul style="list-style-type: none"> (a) An item satisfies the definition of an element; and (b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs (Conceptual Framework, paragraph 6.2).
Other resources and obligations	<p>The Conceptual Framework leaves open the possibility that the IPSASB might require or allow items that do not meet the definition of an element to be recognized as other resources or obligations in a standard (Conceptual Framework, paragraph 5.27).</p>
Measurement	<p>The Conceptual Framework outlines a number of possible measurement bases for assets and liabilities, and considers their attributes. It does not specify which bases are to be used for specific assets or liabilities.</p>