



Agenda Item 8: Revenue and Non-Exchange Expenses

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Overall Objective of the Session

- To determine whether or not to start developing consultation papers for each project
- To provide some direction about the structure and content of the consultation papers (key proposals)

Consultation Papers – Two Possible Approaches

Exchange Revenue
IFRS 15

Non-exchange Revenue
Enhanced IPSAS 23

Non-exchange
Expenses
IPSAS 19 or IPSAS 23

Consultation Papers – Two Possible Approaches

Revenue
Performance Obligation
IFRS 15

Revenue
Non-Performance
Obligation
Enhanced IPSAS 23

Non-exchange Expenses

Consultation Papers – Potential Scope Expansion

Expense
Performance Obligation

Expense
Non-Performance
Obligation

Agenda Items

- Item 8.1 Preparer Interviews
- Item 8.2 Landscape Review – Expenses
- Item 8.3 Exchange/Non-exchange Classification Approach
- Item 8.4 Performance Obligation Approach
- Item 8.5 Whether to Develop Consultation Papers

Agenda Item 8.1

Preparer Interviews

Preparer Interviews: Methodology and Limitations

Preparer Interview Participants

	Central Government	Sub-National Government	International Organization	Total
Teleconference	3	1	0	4
Video Conference	1	1	0	2
In Person	1	0	1	2
Written Responses	1	1	1	3
Total	6	3	2	11

Preparer Interviews: Types of Non-Exchange Transactions

- Both revenues and expenses
 - Taxes
 - Grants
 - Subsidies
 - In-kind contributions
 - Transfers
 - Premises, goods, inventory

Preparer Interviews: Types of Non-Exchange Transactions

- Revenues
 - Fines
 - Voluntary and assessed contributions
 - License fees
 - Refuse charges
 - Home installation
 - Business improvement targeted rates
 - Building consents
 - Social housing
 - Membership assessments
 - Waiver of fees

Preparer Interviews: Types of Non-Exchange Transactions

- Expenses
 - Public health or public services, including humanitarian-type aid and unemployment-type aid
 - Funding to partners for specific programs
 - Pass-through contributions (governments to citizens)
 - Concessionary loans
 - Investment contributions to recipients
 - Donations

Preparer Interviews

- Difficulties: Non-Exchange Revenues
 - Stipulations
 - Timing of recognition, especially multi-year arrangements
 - Pass-through transactions
 - In-kind services
 - Probability of collection at initial recognition vs. subsequent measurement
 - Financing of construction projects
 - Distinguishing between exchange and non-exchange

Preparer Interviews

- Difficulties: Non-Exchange Expenses
 - No issues
 - Treatment of multi-year expenses
 - “More likely than not” threshold
 - Defining an onerous contract
 - Measurement
 - Loans (concessionary, forbearance and conditional)
 - Fiscal equalization based on statistical predictions

Preparer Interviews: Other Questions

- Sufficiency of guidance regarding distinction between exchange and non-exchange transactions
 - Varied responses
- Current recording of accruals related to non-exchange expenses
 - Varied responses
- Guidance consulted regarding non-exchange expenses
 - Range of guidance

Preparer Interviews

Matter for Consideration

The IPSASB is asked if additional interviews of preparers should be conducted. If so, the IPSASB is asked to provide suggestions for additional participants.

Agenda Item 8.2

Landscape Review- Expenses

Landscape Review-Expenses

- Standards potentially affected by the non-exchange expense project:
 - IPSAS 12, *Inventories*
 - IPSAS 13, *Leases*
 - IPSAS 17, *Property, Plant and Equipment*
 - IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*
 - IPSAS 23, *Revenue from Non-Exchange Transactions*
 - IPSAS 29, *Financial Instruments: Recognition and Measurement*

Landscape Review-Expenses

- Standards not likely to be affected by the non-exchange expense project:
 - IPSAS 5, *Borrowing Costs*
 - IPSAS 9, *Revenue from Exchange Transactions*
 - IPSAS 11, *Construction Contracts*
 - IPSAS 16, *Investment Property*
 - IPSAS 25, *Employee Benefits*
 - IPSAS 31, *Intangible Assets*
 - IPSAS 32, *Service Concession Arrangements: Grantor*

Landscape Review-Expenses

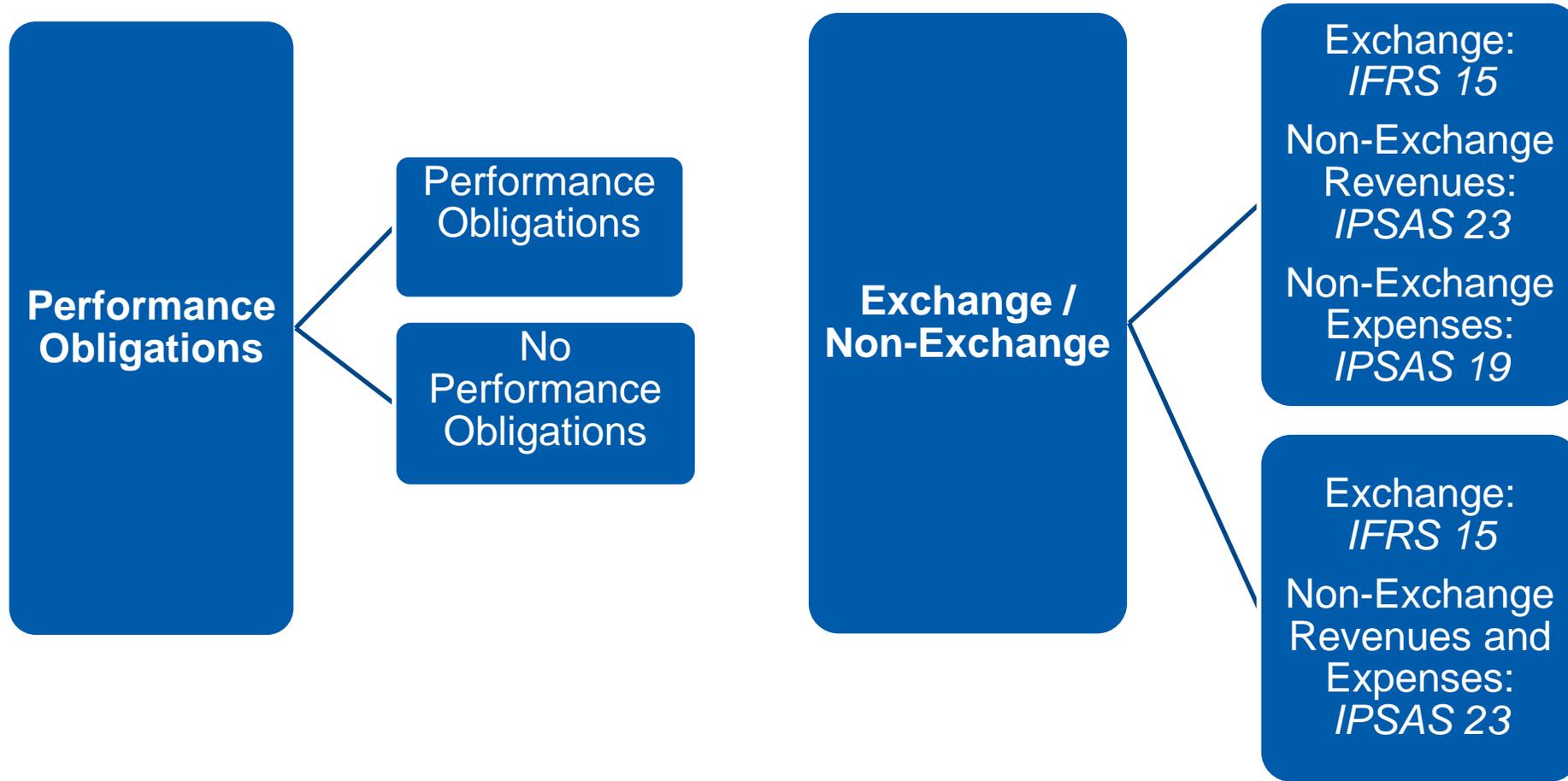
Matter for Consideration

The IPSASB is asked if it agrees with the initial conclusions described for each Statement.

Agenda Item 8.3

Exchange/Non-Exchange Classification Approach

Potential Approaches



Overview

- Exchange/Non-Exchange Classification Approach
 - IPSAS 19 Approach
 - IPSAS 23 Approach

Exchange/Non-exchange Classification Approach

- Advantages:
 - Familiar to preparers
 - Well-tested in the public sector
 - Foundational in public sector
 - Requires no change in scope

Exchange/Non-exchange Classification Approach

- Disadvantages:
 - Conceptual difficulty in differentiating between exchange and non-exchange
 - May be difficult to apply in practice
 - Distinction without difference in presentation of financial statements

Exchange/Non-exchange Classification Approach

Matters for Consideration

The IPSASB is asked if it agrees with the advantages and disadvantages described above for retention of the exchange/non-exchange classification approach.

The IPSASB is asked to identify any additional advantages or disadvantages of retaining the exchange/non-exchange classification approach that should be considered.

Exchange/Non-exchange Classification Approach

- Potential Modifications to IPSAS 23:
 - Operationalize and clarify the definition of non-exchange
 - Clarify how classification impacts accounting and financial reporting
 - Allow for professional judgment in certain transactions

Potential Modifications to IPSAS 23

Matter for Consideration

The IPSASB is asked to identify any additional potential modifications to the IPSAS 23 approach that should be further explored at the next meeting

IPSAS 19 Approach

- Advantages of continuing to apply IPSAS 19:
 - Provides flexibility for jurisdictional differences
 - Allows application of judgment to an entity's situation
 - Allows for consideration of future events, as necessary

IPSAS 19 Approach

- Disadvantages of continuing to apply IPSAS 19:
 - Lack of specificity in the standard
 - Does not specifically consider non-exchange transactions
 - Developed before IPSAS 23 and Conceptual Framework
 - May not be sufficiently specific for some obligations

IPSAS 19 Approach

Matters for Consideration

The IPSASB is asked if it agrees with the advantages and disadvantages described above for the IPSAS 19 approach.

The IPSASB is asked to identify any additional advantages or disadvantages of the IPSAS 19 approach.

IPSAS 23 Approach

- Advantages:
 - Familiar to preparers
 - May result in fewer implementation difficulties
 - Includes guidance for stipulations
 - Provisions for transactions that have both exchange and non-exchange components

IPSAS 23 Approach

- Disadvantages:
 - Guidance for stipulations may be insufficient
 - Could require accelerated expense recognition
 - Concerns about the enforceability and specificity of stipulations
 - Difficult to determine the timing to evaluate an outflow
 - Jurisdictional differences may cause difficulties in accounting treatment

IPSAS 23 Approach

Matters for Consideration

The IPSASB is asked if it agrees with the advantages and disadvantages described above for the IPSAS 23 approach.

The IPSASB is asked to identify any additional advantages or disadvantages of the IPSAS 23 approach.

Agenda Item 8.4

Performance Obligation

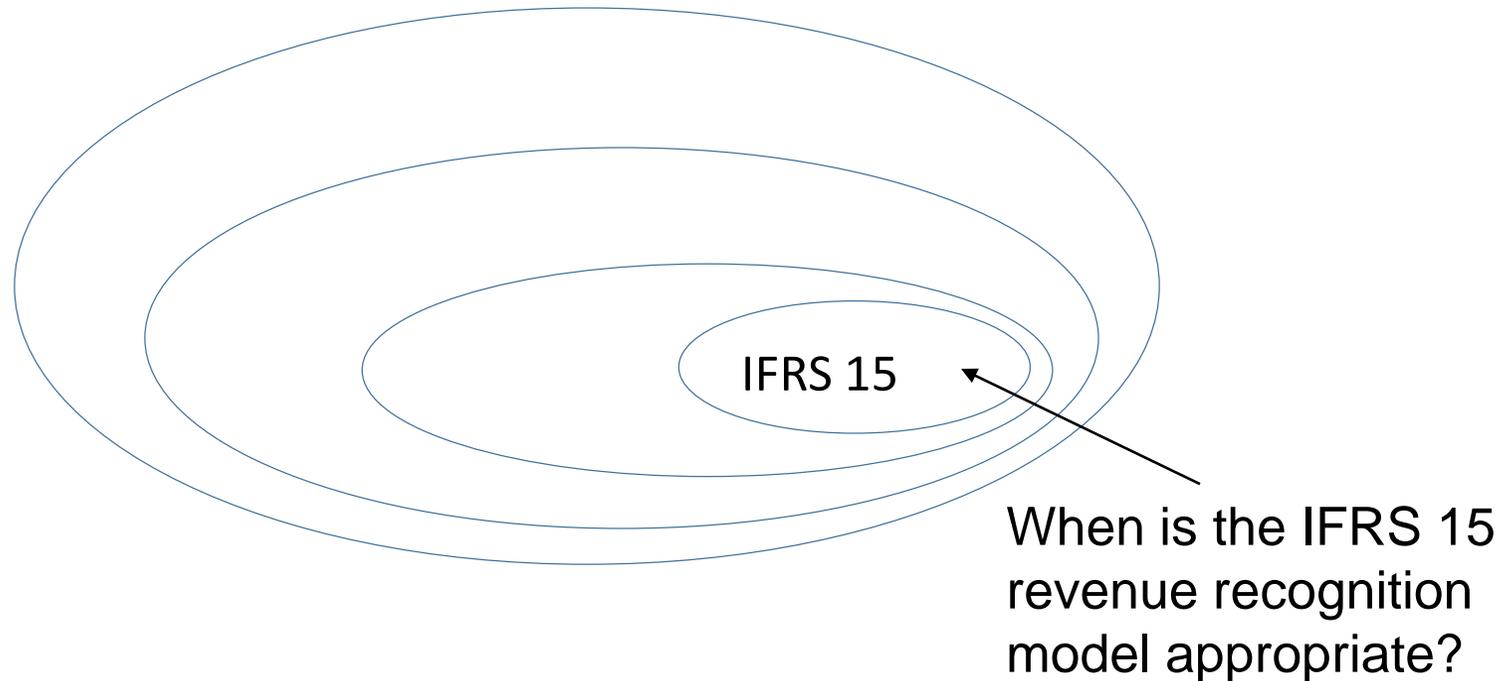
Approach

Contents of Agenda Paper

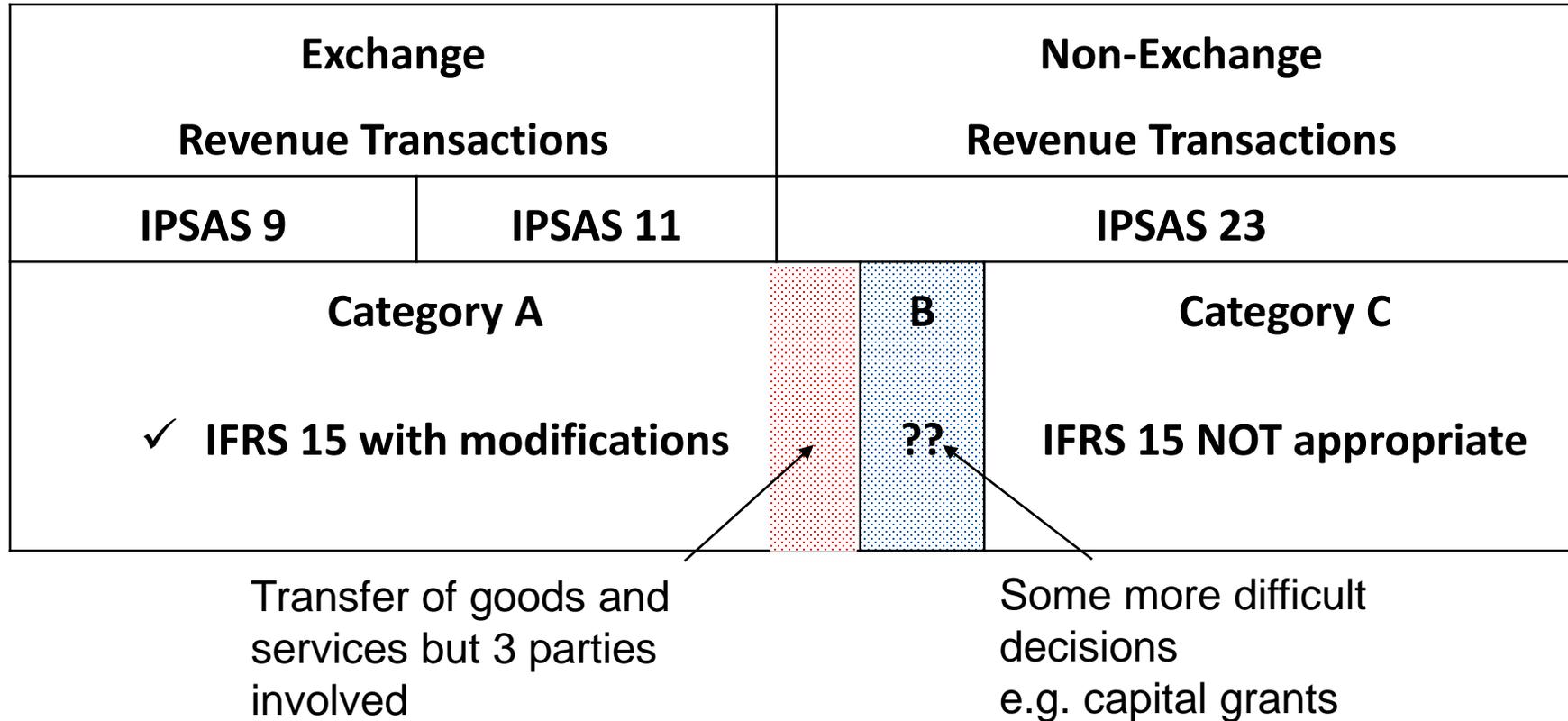
- Why Look at Performance Obligations?
- A Closer Look at IFRS 15
- Categories of Transactions – When is IFRS 15 Appropriate?
- Update on IFRS 15 in Various Jurisdictions
- Next Steps
- Appendix 1: Examples

A Closer Look at IFRS 15

The revenue recognition model in IFRS 15 is based on satisfaction of performance obligations.
But it does not apply to all contracts with customers.



When is IFRS 15 Appropriate?



Category A Transactions

- Exchange transactions
 - such as those currently falling within the scope of IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 11 *Construction Contracts*

Plus

- A subset of non-exchange transactions
 - transactions currently classified as non-exchange mainly because they involve the transfer of goods and services to entities or individuals other than the resource provider
 - transactions that have a resource provider, service provider and a funder

Category B & C Transactions

- Category B Transactions
 - A subset of non-exchange transactions
 - Missing some of the characteristics of IFRS 15 performance obligation approach
- Category C Transactions
 - A large subset of the non-exchange transactions accounted for under IPSAS 23

Matters for Consideration

1. Does the IPSASB agree that it would be appropriate to propose the recognition model in IFRS 15 to account for Category A transactions?
2. Does the IPSASB think that it would be appropriate to propose extending the IFRS 15 recognition model to any Category B transactions? If so, which types of transactions?
3. Does the IPSASB agree that residual revenue and non-exchange expense standards are required for transactions such as Category C transactions?

Agenda Item 8.5

Whether to Develop Consultation Papers

Consultation Papers: Advantages & Disadvantages

- Advantages
 - Useful feedback
 - Improve chances of getting it right first time
 - Better constituent engagement, education, expectations
- Disadvantages
 - Time: Impact on completion of project
 - Resources: Impact on overall IPSASB work plan
 - Constituent overload

Matter for Consideration

- The IPSASB is asked to confirm that consultation papers would be appropriate for both the revenue project and the non-exchange expenses project.



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