# IPSASB Consultation Paper

## Revenues and Non-exchange expenses

## Task Force on Accounting Standards Meeting

**Bekzod Rakhimov**

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# IPSAS Board's Due Process

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- The IPSASB continues to develop new standards and amend existing IPSASs.
- Due process usually begins with Consultation Papers (CP), and then progresses to Exposure Drafts (ED), then IPSAS is drafted.
- The draft IPSAS has to have 75% vote of the IPSASB made up of 17 members to pass; the due process takes between 2 to 3 years for an IPSAS to be issued, depending on complexity.
- Some pronouncements do not necessarily develop into standards but may become Recommended Practice Guidelines (RPGs) or Studies.

# IPSASB's Work Agenda

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- Currently the IPSASB is working on 12 projects, five of which have direct implication for the UN system.
- Those with direct implications for the UN system are Revenue and Non-Exchange Expenses, Heritage, Leases, Public Sector Measurements and Fin Instruments Update (IPSAS 28-30).
- Other projects not yet commenced or paused but are on the Agenda include Infrastructure Assets, Emissions Trading Schemes and Improvements.
- Other projects which seem not to impact directly on the UN system include Social Benefits and Public Sector Specific Financial Instruments (gold, notes and coins etc.).
- A summary of the potential impact of the IPSASB's Work Agenda is disclosed in the notes to the financial statements.

# Revenue & Non-Exchange Expenses

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- IFRS 15 replaced IAS 11 & 18 on Construction & Revenue respectively, so IPSAS 9, 11 & 23 have to be updated to maintain convergence with IFRS & also align with IPSAS Conceptual Framework, issued in 2013.
- Constituents have also identified difficulties relating to multi-year financing, stipulation and capital grants which will be considered.
- No single IPSAS is in place for Non-Exchange Expenses so this revision will also include the matter of accounting for Non-Exchange Expenses focusing on the obligating event for the transferor of resources .
- IPSASB issued a Consultation Paper in August 2017 which is open for public comment until 15 January 2018.
- Changes may impact accounting for voluntary contributions and IP advances depending on the position taken on the performance obligation approach of IFRS 15, enforceability and the obligating event for the transferor.
- New IPSASs are expected to be issued in 2019.

# Revenue & Non-Exchange Expenses - Highlights

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Through this CP IPSASB aims to:

- Develop one or more IPSAS to address the accounting requirements for all revenue transactions (exchange and non-exchange); and
- Develop one or more IPSAS to address the accounting requirements for non-exchange expenses, excluding social benefits.

The CP is seeking views on:

- Approaches for revenue recognition;
- Proposals for updating IPSAS 23, Revenue from Non-exchange Transactions (Taxes and Transfers) for transactions with time requirements;
- Approaches for the recognition of non-exchange expenses (excluding social benefits); and
- Measurement of non-contractual receivables and payables.

# Revenue & Non-Exchange Expenses - Highlights

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The IPSASB has categorized revenue transactions into three broad categories, depending on whether the transaction contains performance obligations or stipulations.

- Category A – Transactions with no performance obligations or stipulations
- Category B – Transactions with performance obligations or stipulations which do not have all the characteristics of a transaction in the scope of IFRS 15
- Category C – Transactions that meet the definitions and scope of IFRS 15

The CP considers two approaches for Category B revenue transactions:

- Approach 1 – Update IPSAS 23 (there are five options in this approach); and
- Approach 2 – Public Sector Performance Obligation Approach (based on IFRS 15)

# Revenue & Non-Exchange Expenses - Highlights

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The IPSASB has categorized revenue transactions into 3 groups:

**Categorization of Revenue Transactions**

| | | | |
|---|---|---|---|
| Current | Non-Exchange | | Exchange |
| CP Revenue | Category A | Category B* | Category C |
| Characteristic | No performance obligations or stipulations | Enforceable agreements, with performance obligations or stipulations to use or consume resources in a particular way; and/or other agreements requiring resources to be used over a specified period of time | Enforceable agreements, with performance obligations to transfer goods or services to customers on commercial terms |
| Examples | Taxes, transfers | Funding to deliver a specified number of vaccinations to the public | Sale of goods or services on commercial terms |

* Whether Category B transactions are considered to be exchange or non-exchange can differ depending on how the characteristics of the transaction are interpreted.

# Revenue & Non-Exchange Expenses - Highlights

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Implementation of IPSAS 23 has identified challenges including:

- Difficulty in making the exchange/non-exchange determination
- Accounting for transfers with time requirements – currently where time requirements are the only stipulation, resources are recognized by the recipient when receivable. Some argue that this does not provide the information that users need about the period over which the resource provider intends the resources to be used.

# Revenue Approach 1: 5 options for updating IPSAS 23

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Potential options for updating IPSAS 23 to address the exchange/non-exchange determination issue

- (1a) Provide additional guidance on making the exchange/non-exchange determination
- The difficulty in making the exchange/non-exchange determination is in assessing what the terms ‘directly’ and ‘approximately equal value’ in the definitions of exchange and non-exchange transactions mean
- To address this issue the IPSASB would develop additional guidance.

# Revenue Approach 1: 5 options for updating IPSAS 23 (continued)

- 1(b) – Require enhanced display/disclosure for transactions with time requirements . This presentational option indicates the time-frame over which the resource provider intends the transfer to be used. This information is communicated through note disclosures and/or a disaggregation of revenue in the statement of financial performance.

- 1(c) – Classify time requirements as a condition  This option classifies time requirements as a condition rather than a restriction.

# Revenue approach 1: 5 options for updating IPSAS 23 (continued)

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- 1(d) – Classify transfers with time requirements as other obligations Under this option the resource recipient initially recognizes the transfer as an "other obligation" (as discussed in the IPSASB's Conceptual Framework) and recognizes revenue as the transfer is used.

- 1(e) – Recognize transfers with time requirements in net assets/equity and recycle through statement of financial performance. This option takes transfers with time requirements directly to net assets/equity and is recycled through revenue when used.

# Revenue Approach 2 – Public Sector Performance Obligation Approach

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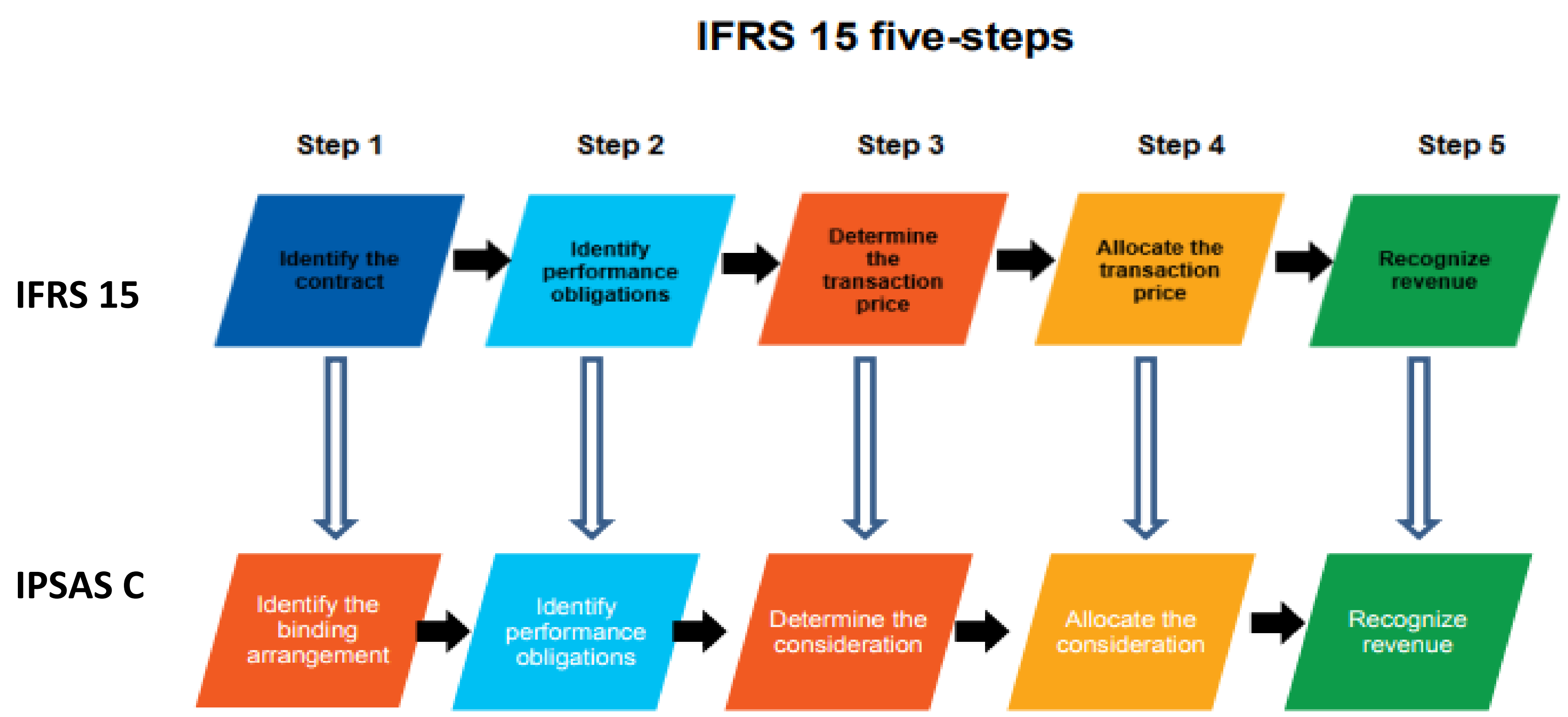
For Category B transactions, the CP discusses an approach based on IFRS 15 adapted for public sector transactions.

Adaptations include:

- Expanding the concept of enforceability

- Recognizing revenue on the fulfillment of performance obligations rather than the transfer of promised goods and/or services

# Revenue Approach 2 – Public Sector Performance Obligation



# 5 Steps for recognizing revenue adapted from IFRS 15



- Identify the binding arrangement
- Identify performance obligations
- Determine the consideration (price)
- Allocate the consideration
- Recognize revenue on fulfillment of obligations

# Other Current IPSAS 23 application issues

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The CP also identifies two other IPSAS 23 application issues:

- Capital Grants

- Services in-kind

The CP does not suggest how accounting for capital grants or services in-kind can be amended but rather seeks feedback from constituents on the issues encountered with accounting for these transactions

# Non-Exchange Expenses (NXE)

There are currently no specific IPSAS addressing accounting for NXE. To fill this gap in the literature, the CP considers two approaches:

- The Extended Obligating Event Approach (EOEA)
- Public Sector Performance Obligation Approach (PSPOA)

The types of NXE that would be accounted for under these approaches are:

- Universally accessible services;
- Collective services; and
- Grants, contributions and other transfers.

# Non-Exchange Expenses (NXE):

The CP considers 2 approaches for accounting for non-exchange expenses:

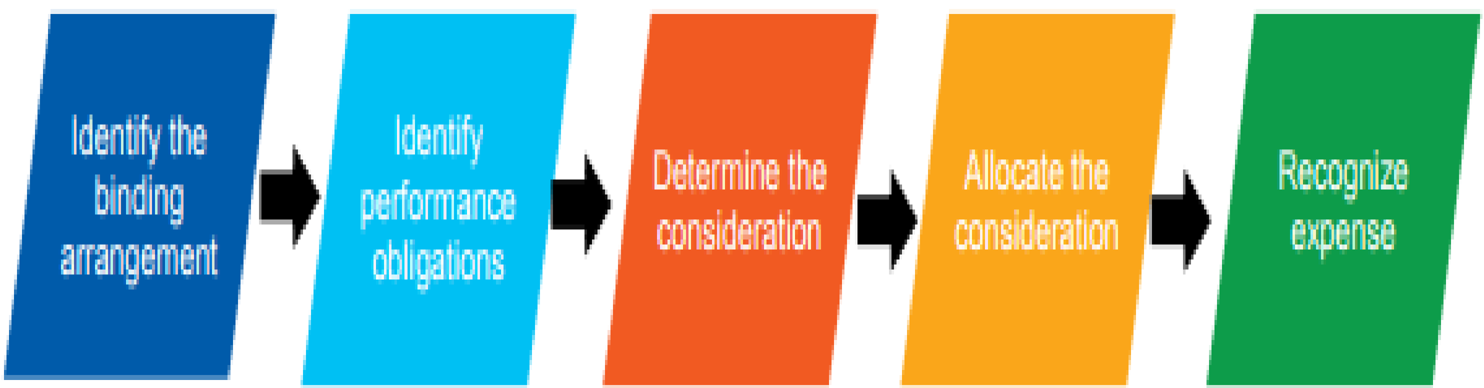
Approach 1 – The Extended Obligating Event Approach

- This approach uses the concept of an obligating event in the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities to determine when a resource provider has a liability, and then applies a reverse IPSAS 23 approach to assess when an expense should be recognized.

# Non-Exchange Expenses (NXE):

The CP considers 2 approaches for accounting for non-exchange expenses:

Approach 2 – Public Sector Performance Obligation Approach. This approach is the counterpart to the approach of the same name for revenue transactions. The five step approach is reconfigured from the perspective of the resource provider.



# Measurement of non-contractual receivables and payables

## Measurement approaches identified

– Non-contractual receivables

- Initial measurement
  - ☐ Best estimate of the discounted cash flow
  - ☐ Face value (legislated value) of transaction with uncollectible amounts identified (PV reflects)
- Subsequent measurement
  - ☐ Fair value approach (PV reflects)
  - ☐ Amortized cost approach
  - ☐ Cost approach

– Non-contractual payables (No PV)

- ☐ Cost of Fulfillment approach
- ☐ Amortized cost approach
- ☐ Hybrid approach
- ☐ IPSAS 19

# IPSASB Preliminary Views

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To inform constituents of the IPSASB's views on the approaches identified the CP contains a number of Preliminary Views (PVs)

Revenue Transactions

PV 1 – Category C transactions should be accounted for under an IPSAS converged with IFRS 15

PV 2 – Category A transactions should be accounted for under an updated IPSAS 23

PV 3 – Category B transactions should be accounted under a Public Sector Performance Obligation Approach

Capital Grants

PV 4 – Capital grants should be addressed explicitly within IPSAS.

# IPSASB Preliminary Views (continued)

Non-Exchange Expense Transactions

PV 5 – Non-exchange transactions related to universally accessible services and collective services have no performance obligations. Therefore, these non-exchange transactions should be accounted for under the Extended Obligating Event Approach

PV 6 – Because there is no obligating event related to non-exchange transactions for universally accessible services and collective services, resources applied for these types of non-exchange transactions should be expensed as services are delivered

PV 7 – Grants, contributions and other transfers that contain performance obligations or stipulations should be accounted for under the Public Sector Performance Obligation Approach

# IPSASB Preliminary Views (continued)

Measurement – Non-contractual receivables

PV 8 – Initial measurement of non-contractual receivables should be at the face value (legislated amount) of the transaction with any amount expected to be uncollectible identified as an impairment.

PV 9 – The fair value approach should be used for the subsequent measurement of non-contractual receivables.