



Australian Government

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Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
(submitted via the IPSASB website)

29 October 2020

Dear Ross,

IPSASB Exposure Drafts 70 – 72

The Australian Accounting Standards Board (AASB) is pleased to provide its comments on Exposure Draft 70 *Revenue with Performance Obligations* (ED 70), Exposure Draft 71 *Revenue without Performance Obligations* (ED 71) and Exposure Draft 72 *Transfer Expenses* (ED 72).

Overall, the AASB supports the proposals in ED 70. Appendix A to this letter includes the AASB's responses to the Specific Matters for Comment in ED 70.

In respect of ED 71, the AASB reached a different conclusion to the International Public Sector Accounting Standards Board's proposals when developing its own income Standard for not-for-profit entities – AASB 1058 *Income of Not-for-Profit Entities* (December 2016) – and Australian implementation guidance for not-for-profit entities for AASB 15 *Revenue from Contracts with Customers* (Appendix F). At the time, the AASB decided that, subject to any related amounts recognised under other applicable Standards (such as AASB 9 *Financial Instruments*, AASB 15 and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*), an inflow arising from a transaction without performance obligations should be recognised as income when the inflow satisfies the recognition criteria for an asset (with an exception for certain capital transfers). Appendix B to this letter includes the AASB's rationale in response to Specific Matter for Comment 1.

The AASB generally supports the proposals in ED 72 but has concerns regarding the potential practical difficulties and compliance costs for a transfer provider in monitoring a transfer recipient's satisfaction of its performance obligations under a binding arrangement. The AASB is also of the view that more guidance is needed to explain the interaction between an IPSAS based on ED 72 and other IPSASB Standards (such as IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* and IPSAS 42 *Social Benefits*). The AASB's responses to the Specific Matters for Comment in ED 72 are set out in Appendix C.

The Exposure Drafts were not explicitly exposed for comment in Australia by the AASB, although they were linked to the AASB website. The AASB has consulted selected stakeholders in developing its submission. Some Australian stakeholders may comment directly to the IPSASB.

If you have any questions regarding this submission, please contact myself or Clark Anstis, Technical Principal (canstis@aab.gov.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Kendall'.

Dr Keith Kendall
AASB Chair

APPENDIX A

The AASB’s responses to the Specific Matters for Comment in ED 70 *Revenue with Performance Obligations*

The AASB’s views on the specific matters for comment in ED 70 are set out below.

**Specific Matter for Comment 1:
Binding arrangements**

This Exposure Draft is based on IFRS 15, *Revenue from Contracts with Customers*. Because in some jurisdictions public sector entities may not have the power to enter into legal contracts, the IPSASB decided that the scope of this Exposure Draft would be based around binding arrangements. Binding arrangements have been defined as conferring both enforceable rights and obligations on both parties to the arrangement.

Do you agree that the scope of this Exposure Draft is clear? If not, what changes to the scope of the Exposure Draft or the definition of binding arrangements would you make?

The AASB agrees that the scope of ED 70 is clear.

Paragraph F12 of AASB 15 *Revenue from Contracts with Customers* provides additional examples of terms in an agreement that may result in enforceable rights and obligations, which could be added to the Application Guidance on enforceability in paragraphs AG13–AG24 of ED 70.

The AASB disagrees with paragraph AG24 of ED 70 (and paragraph 24 of ED 71) that if past experience indicates that the transfer provider never enforces an arrangement if a breach occurs, then the transfer recipient may conclude that the arrangement is not enforceable in substance. The AASB noted in paragraph F16 of AASB 15 that “The identification of an agreement as being enforceable by another party ... does not require a history of enforcement of similar agreements by the customer or even an intention of the customer to enforce its rights. A customer might choose not to enforce its rights against an entity. However, that decision is at the customer’s discretion, and does not affect the enforceability of the customer’s rights. Enforceability depends solely on the customer’s capacity to enforce its rights.”

**Specific Matter for Comment 2:
Transfer revenue definitions**

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

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

The AASB agrees with the reasons explained in paragraph BC21 that it is not necessary to define “transfer revenue” or “transfer revenue with performance obligations” to clarify the mirroring relationship between the Exposure Drafts. The terms and related definitions alone would not explain the interaction between the Exposure Drafts. For example, the Exposure Drafts propose asymmetrical treatment in some circumstances, which would not be affected by including transfer revenue definitions that mirrored the transfer expense definitions.

The AASB notes that it is not essential to have symmetrical accounting between the transfer provider and the transfer recipient for revenue and expenses arising from a binding arrangement. Their accounting treatment should be based on the perspective of each entity.

Specific Matter for Comment 3:

Dual revenue components

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

Do you agree with the application guidance? If not, why not?

The AASB agrees with the application guidance set out in paragraphs AG69 and AG70.

The AASB provided a pragmatic approach in the last sentence of AASB 15 paragraph F30 to assessing the materiality of such “donation” components in balancing the costs and benefits of separately recognising those components. Under the AASB’s approach, materiality is assessed in relation to each contract, and is not reassessed subsequently (e.g. at the end of the financial year) at an aggregate or portfolio level. Adopting such an approach would avoid undue costs that entities might incur if reassessment was required.

Specific Matter for Comment 4:

Disclosure requirements

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

Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed? If not, why not?

The AASB agrees that the disclosure requirements should be aligned with those in IFRS 15. The AASB concurs with the IPSASB’s reasons explained in paragraph BC48 that since all of the concepts from IFRS 15 on recognition and measurement of revenue have been retained in the proposals in ED 70, there is no public-sector-specific reason to remove any of the disclosure requirements.

Specific Matter for Comment 5:

Disclosures for compulsory transactions

In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47 and BC50.

Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions? If not, why not?

The AASB notes that the proposed disclosure requirements in paragraph 120 are more extensive than IFRS 15 requires of for-profit entities that have price concessions. However, the additional disclosures might be justified if users of financial statements are interested in this information for public sector entities where such transactions are prevalent and material, as stipulated in paragraph BC40 of ED 70.

APPENDIX B

The AASB's response to Specific Matter for Comment 1 in ED 71 *Revenue without Performance Obligations*

The AASB's views on Specific Matter for Comment 1 in ED 71 are set out below.

Specific Matter for Comment 1:

Determining when a transfer recipient has a present obligation

The ED proposes that a present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. The IPSASB decided that to help ascertain whether a transfer recipient has a present obligation, consideration is given to whether the transfer recipient has an obligation to perform a specified activity or incur eligible expenditure.

Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, *Revenue without Performance Obligations*, a specified activity and eligible expenditure give rise to present obligations? Are there other examples of present obligations that would be useful to include in the [draft] Standard?

The AASB reached a different conclusion to the proposals in ED 71 when developing its own income Standard for not-for-profit entities, AASB 1058 *Income of Not-for-Profit Entities* (December 2016). In accordance with its transaction neutrality policy, the AASB decided that the financial reporting of not-for-profit entities should align with the principles in AASB 15 (IFRS 15) *Revenue from Contracts with Customers* where relevant (subsequently augmented by AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*). AASB 1058 was developed to prescribe the accounting treatment of income of not-for-profit entities for certain transactions that are not in the scope of AASB 15. The AASB's rationale in developing AASB 15 and AASB 1058 is outlined below for the IPSASB's information.

Inflows arising from transactions without sufficiently specific performance obligations

ED 71 proposes that a transfer recipient would have a liability to transfer resources to another party where it is required to perform a specified activity or incur an eligible expenditure that is not a performance obligation. The AASB notes that this is different from the approach in AASB 1058.

The AASB concluded that under the principles of AASB 15, in general, a contract liability exists (i.e. revenue is deferred) for consideration received where an entity has a contractual obligation to transfer control of specified goods or services. As required by paragraph 10 of AASB 1058, the AASB concluded that – subject to any related amounts recognised under other applicable Standards (such as contract liabilities under AASB 15 and provisions under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*) – an inflow arising from a transaction without sufficiently specific performance obligations should be recognised as income when the inflow satisfies the recognition criteria for an asset. (AASB 1058 includes an exception to this approach for transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, which is explained below.)

The AASB considered there might be situations where an inflow of resources has terms and conditions that give rise to a liability (or income/revenue or equity) for the transfer recipient under other applicable Australian Accounting Standards. Therefore, the AASB decided that AASB 1058 should operate on a 'residual' basis – i.e. apply other applicable Australian Accounting Standards first, such as AASB 137 and AASB 9 *Financial Instruments*, before recognising the residual amount as income (AASB 1058 paragraph 10). Other than transfers to enable an entity to acquire or construct a recognisable non-

financial asset to be controlled by the entity (AASB 1058 paragraphs 15–17), the AASB did not establish new liability recognition requirements in AASB 1058.

Does a requirement to perform a ‘specified activity’ or to incur ‘eligible expenditure’ always give rise to a liability for the transfer recipient?

The AASB notes the guidance in paragraphs 5.14–5.18 of the IPSASB’s Conceptual Framework and paragraphs 18 (the definition of an obligating event) and 27 of IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* appear to stipulate that for a liability to exist for the transfer recipient there must be:

- (a) an obligation owing to another party as a result of a past event (although it is not essential to know the identity of the party to whom an obligation is owed);
- (b) an obligation that presently exists and is independent of the transfer recipient’s future actions – i.e. the transfer recipient has little or no realistic alternative to avoid the outflow/transfer of resources independently of its future actions; and
- (c) a present entitlement for another party to receive the outflow/resources.

It is not clear in ED 71 why a requirement to perform a ‘specified activity’ or to incur ‘eligible expenditure’ would always give rise to a liability for the transfer recipient, when the transaction is not considered a liability under the IPSASB Standards stated in paragraph 3 of ED 71 (the scope exclusions) and does not have performance obligations under ED 70.

The AASB acknowledges that cash or other resources would eventually need to be paid or provided by the transfer recipient to another party or parties to pay for the goods or services that the other parties would provide, to comply with the conditions of the arrangement (or else the cash or other resources would need to be returned to the transfer provider). However, this “obligation to pay cash or resources” arises only when a separate arrangement is entered into with another party to provide goods or services, and not at the point when the transfer recipient recognises an asset on obtaining control of the transfer resource. The separate arrangement is the past event that gives rise to that obligation, not the initial arrangement with the transfer provider. Recognition of the transfer resource as revenue should not depend on the transfer recipient entering subsequent separate arrangements with other parties and satisfying its obligations under those arrangements.

In addition, in accordance with AASB 1058 paragraph B14, when the transfer recipient obtains control of the transfer resource, the transfer recipient does not have a present obligation to return the resource to the transfer provider. This is because, at that point in time, the transfer provider does not have a present entitlement to a refund from the transfer recipient. An entitlement to a refund only arises for the transfer provider when the transfer recipient fails (or expects to fail) to satisfy the terms and conditions of the transfer, that is, it depends on the transfer recipient’s future actions. This is consistent with the approach to refund obligations in paragraph 55 of AASB 15 (and ED 70, paragraph 54).

Capital transfers

When developing AASB 1058, the AASB considered whether a ‘specified activity’ arising from a transfer to enable an entity to acquire or construct a non-financial asset to be controlled by the entity (called ‘capital transfers’ in ED 71) would give rise to a liability to other parties. The AASB concluded that it would not be appropriate to treat the requirement to acquire or construct a non-financial asset to be controlled by the entity as an obligation owing to another party.

The AASB noted that a capital transfer does not give rise to a performance obligation as there is no requirement for the transfer recipient to transfer a good or a service to another party (as would be required under paragraph 22 of AASB 15). Therefore, capital transfers would not be in the scope of AASB 15.

Although ED 71 proposes the same accounting outcome as AASB 1058 regarding capital transfers (except for capital transfers to acquire or construct an *unrecognisable* non-financial asset, addressed below), the IPSASB's rationale is different to the AASB's rationale in AASB 1058. The AASB took the view that the transfer provider had intended to transfer a *recognisable* non-financial asset to the transfer recipient for use by the entity itself. Accordingly, the AASB decided that the timing of income recognition should reflect how the transfer recipient "receives" the recognisable non-financial asset, rather than the receipt of the cash or other financial asset to construct or acquire the asset (AASB 1058 paragraph BC98).

The AASB considered that receiving such transfers would not give rise to an obligation owing to another party. Consequently, the AASB made an exception for this type of capital transfer, with the result that AASB 1058 (paragraphs 15–17) requires the transfer recipient to initially recognise a liability so that the timing of income recognition is aligned with how the transfer recipient directly receives the recognisable non-financial asset.

The transfer recipient would capitalise an asset as resources are used to acquire or construct the non-financial asset. Therefore, there would likely be no reduction in the transfer recipient's net assets when fulfilling the requirements of a capital transfer. In this case, there is no net outflow of resources, but rather a change in the form of the resources controlled by the entity (from cash or another financial asset to a non-financial asset). Therefore, the definition of a liability – which requires an outflow of resources – is not met.

Transfers to acquire or construct unrecognisable non-financial assets

When developing AASB 1058, the AASB considered extending the capital transfer accounting treatment to transfers received where the non-financial asset to be acquired or constructed would meet the definition of an asset but would not be permitted to be recognised by an Australian Accounting Standard. The AASB considered transfers for specified research activities as an example, given that AASB 138 *Intangible Assets* does not permit the recognition of an entity's research activities as an asset. The AASB concluded that the exception in paragraphs 15–17 of AASB 1058 for recognising a liability for capital transfers in order to align income recognition with how the transfer recipient directly receives the non-financial asset should not be extended to transfers in respect of *unrecognisable* non-financial assets.

The AASB was concerned that extending the exception in this manner would:

- (a) create ambiguity in the distinction between a service and a good, and lack of clarity as to whether an implicit good component in a contract needs to be separately identified from the service. The AASB observed that many service contracts in both the not-for-profit and for-profit sector arguably give rise to (unrecognised) knowledge or expertise to the service renderer;
- (b) result in a lack of comparability, as some constituents may contend that all the value in such a contract is attributable to the unrecognised good acquired; while others contend that the value remains with the service rendered (ie the good is an incidental product that the customer does not value in entering the contract). Yet others may contend that some apportionment is appropriate;
- (c) be seen as being inconsistent with the AASB's decision not to extend the accounting specified by AASB 15 to all transactions of not-for-profit entities, regardless of whether a contract with a customer exists. The AASB could not see a clear distinction why the accounting should differ between transactions that through the conduct of an activity result in incidentally gaining control of intellectual property assets, and an arrangement to deliver services for which income may be recognised immediately in accordance with this Standard; and
- (d) create confusion as to whether AASB 1058 would allow certain intangible assets to be recognised, where their recognition is otherwise prohibited.

Consequently, the accounting set out in paragraphs 15–17 of AASB 1058 is limited to transactions that will result in a *recognisable* non-financial asset controlled by the entity.

Indication of past experience or knowledge in the context of the enforceability of binding arrangements

As noted in the AASB's response to SMC 1 of ED 70, the AASB disagrees with ED 71 paragraph 24 that if past experience or knowledge indicates that the transfer provider never enforces an arrangement if a breach occurs, then the transfer recipient may conclude that the arrangement is not enforceable in substance. The enforceability of a binding arrangement depends solely on the transfer provider's capacity to enforce its rights under the arrangement.

Specific Matters for Comment 2 – 7

Given the response to SMC 1, the AASB does not express a view on the other Specific Matters for Comment in ED 71.

APPENDIX C

The AASB’s responses to the Specific Matters for Comment in ED 72 *Transfer Expenses*

The AASB’s views on the specific matters for comment in ED 72 are set out below.

Specific Matter for Comment 1:

Scope of ED 72

The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15.

Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?

The AASB does not agree that the scope of ED 72 is clear. The AASB considers the scope as detailed in paragraphs 3-5 of ED 72 might be difficult to apply consistently in practice, since for some transactions it will not be clear whether a Transfer Expenses Standard or another IPSAS should be applied. This may lead to diverse outcomes, with public sector entities applying different IPSAS to arrangements that may be economically similar in substance.

For example, the JobKeeper scheme in Australia, administered by the Australian Taxation Office (ATO), supports businesses during the COVID-19 pandemic to retain their employees by subsidising their salary and wages. Eligible businesses are required to register with the ATO to receive these payments for their eligible employees. There might be different views on whether the predominant objective of the scheme is to support the employers (via subsidy of their expenses) or to support employees and their household income during the pandemic (i.e. mitigating social risks). A transfer provider would have to apply its judgement to determine whether to account for the transfer as a transfer expense or other transactions, such as social benefits.

The AASB therefore recommends the IPSASB develop application guidance to assist transfer providers to determine which IPSAS to apply in situations where multiple Standards appear to be relevant. The AASB also recommends adding IPSAS 32 *Service Concession Arrangements: Grantor* to paragraph 5 of ED 72 to clearly exclude service concession arrangements from the scope of ED 72 to avoid confusion.

Specific Matter for Comment 2:

Distinguishing transfer expenses with and without performance obligations

Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations?

If not, what distinction, if any, would you make?

The AASB generally agrees with the approach in ED 72 to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations. This would be similar to the distinction, based on performance obligations, proposed in EDs 70 and 71 and also applied under Australian Accounting Standards for the recognition of revenue or income by not-for-profit entities, through AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*.

Specific Matter for Comment 3:

Transfer provider monitoring of transfers with performance obligations

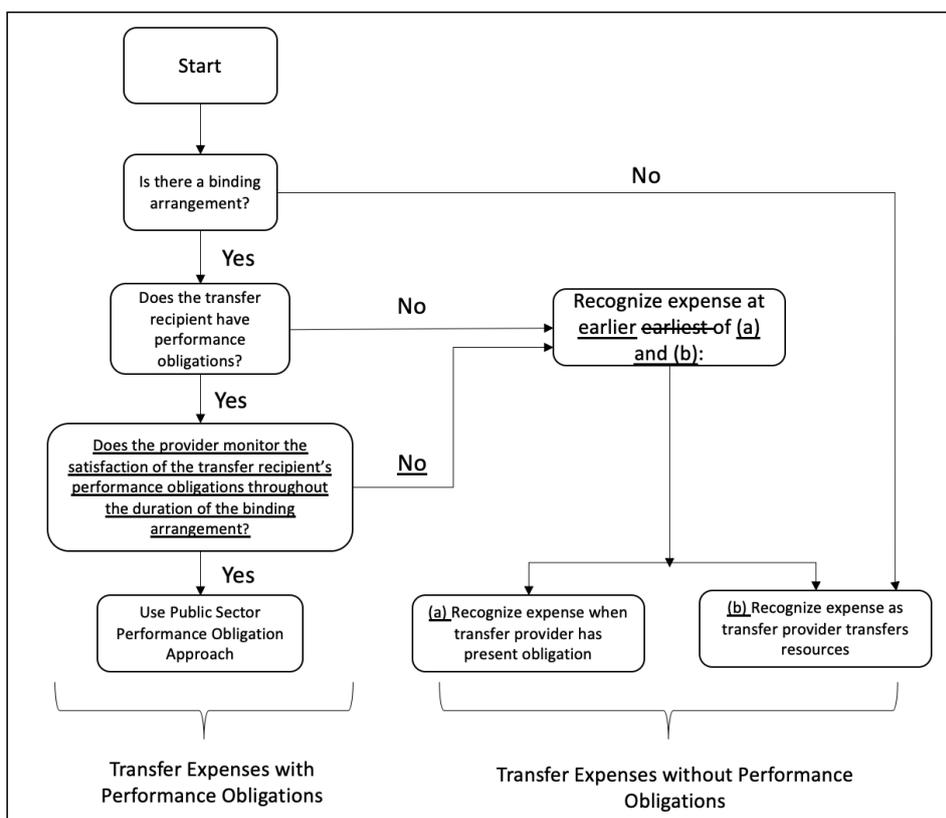
Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient’s performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?

The AASB agrees with the IPSASB’s reasoning that monitoring would enable a transfer provider to acquire reliable information about when to recognise a transfer expense. However, the approach could mean that arrangements with the same nature might be accounted for differently depending only on whether the transfer provider chooses to monitor the satisfaction of performance obligations by the transfer recipient.

Nevertheless, it would not be appropriate for a transfer provider to attempt to recognise transfer expenses based on assumptions as to the transfer recipient’s satisfaction of performance obligations. That approach would most likely not result in a faithful representation of the transfer provider’s binding arrangement assets and transfer expenses. The AASB therefore agrees with the proposal in ED 72 that the transfer should be accounted for as a transfer expense without performance obligations in such circumstances.

The diagram in paragraph IG1 in ED 72 that summarises the accounting for transfer expenses does not portray the effect of the transfer provider monitoring (or not monitoring) the transfer recipient satisfying the performance obligations under an arrangement. The diagram should be revised for this.

The diagram is also confusing in the way it presents the recognition of transfer expenses without performance obligations, based on the earlier of when the transfer provider (a) has a present obligation to transfer resources and (b) transfers the resources to the transfer recipient. The suggested amendments to the diagram are shown in the following diagram:



Specific Matter for Comment 4:**Recognition and measurement of transfer expenses with performance obligations**

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:

- (a) A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and
- (b) A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach.

The rationale for this decision is set out in paragraphs BC16–BC34.

Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?

The AASB agrees conceptually with the recognition and measurement requirements for transfer expenses with performance obligations.

The transfer provider's rights under a binding arrangement to have the transfer recipient transfer agreed goods or services to third-party beneficiaries furthers the objectives of the transfer provider and justifies the initial recognition of an asset.

Since the transfer provider is monitoring the transfer recipient's satisfaction of its performance obligations, the transfer provider will have sufficient information with which to measure and recognise the decrease in the asset and the incurrence of transfer expenses, in accordance with the Public Sector Performance Obligation Approach (PSPOA).

Specific Matter for Comment 5:**Practical difficulties re recognition and measurement of transfer expenses with performance obligations**

If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.

The AASB recommends the IPSASB develop application guidance on monitoring processes to assist transfer providers. It is not clear in ED 72 whether a point-in-time assessment (e.g. at the end of the financial year) or some other periodic assessment would be sufficient, and if so, how frequent that might need to be.

The AASB notes that there are potential practical difficulties and compliance costs for the transfer provider in monitoring the transfer recipient's satisfaction of performance obligations throughout the duration of a binding arrangement. The AASB is of the view that continuous or periodic assessment of the progress and quality of the transfer recipient's performance could be costly for transfer providers, particularly if there is no readily available system for performing such assessments.

Additional compliance and administration costs could arise for transfer providers to:

- (a) clearly identify whether a transfer transaction imposes a performance obligation or a present obligation that is not a performance obligation on the transfer recipient, if the proposals in ED 71 are adopted;

- (b) identify whether there are distinct performance obligations in the transfer transaction and allocate the transfer amount to each of the distinct performance obligations; and
- (c) obtain and apply sufficient information from the transfer recipient to monitor the extent of the satisfaction of the performance obligations, particularly if the transfer recipient accounts for the obligations on a different basis or has a different reporting date (or a project completion date) to the transfer provider.

Potential variations in how transfer recipients measure the satisfaction of performance obligations could lead to inconsistency in how similar arrangements are recognised by the transfer provider.

Where a transfer recipient is not required to comply with the requirements proposed in ED 70 (or similar requirements) in its financial statements, there could also be an increased cost for the transfer recipient to understand the information needs of the transfer provider and to prepare the required information, to enable the transfer provider to satisfy the PSPOA requirements proposed in ED 72.

Specific Matter for Comment 6:

Recognition and measurement of transfer expenses without performance obligations

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:

- (a) A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and
- (b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up?

Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?

If not, how would you recognize and measure transfer expenses without performance obligations?

The AASB generally agrees with the recognition and measurement requirements for transfer expenses without performance obligations. However, the AASB has some specific comments.

First, the guidance in ED 72 for transfer expenses without performance obligations made as a series of transfers of resources appears to be insufficient. Paragraph 97 of ED 72 requires a transfer provider to apply paragraphs 91-94 to each transfer of resources to determine whether an expense should be recognised. However, paragraphs 91-94 do not address the timing of recognising the present obligation for each transfer of resources. It is unclear whether the transfer provider should recognise an expense and a liability at the beginning of the arrangement only for the next transfer or for some or all of the transfers. This lack of guidance may lead to inconsistent treatment for transfer expenses without performance obligations made as a series of transfers of resources. The AASB recommends the IPSASB provide further guidance on this issue.

Second, the subsection for the subsequent measurement of other non-contractual payables (paragraph 120) appears to be outside the scope of the ED, as it addresses payables that do not meet the definition of a transfer expense. Consequential amendments could instead be made to another IPSAS, such as IPSAS 19.

Specific Matter for Comment 7:**Asymmetry in recognising transfers with present obligations**

As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, *Revenue without Performance Obligations*, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue.

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

As noted in Appendix B, the AASB had reached a different conclusion to the proposals in ED 71 when developing its own Standards.

The AASB generally considers that asymmetry in the accounting by transfer providers versus transfer recipients is appropriate, if it reflects the differing circumstances of the entities. Symmetrical accounting should not simply be assumed to be an objective.

Specific Matter for Comment 8:**Binding arrangement subject to appropriations**

This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal?

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

The AASB agrees with the proposal in ED 72 that when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether in substance it has a present obligation to transfer resources and, if so, should therefore recognise a liability, prior to the appropriation being authorised.

Specific Matter for Comment 9:**Disclosure requirements**

This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*, to the extent that these are appropriate.

Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,

- (a) Do you think there are any additional disclosure requirements that should be included?
- (b) Are any of the proposed disclosure requirements unnecessary?

Since the AASB reached a different conclusion to the proposals in ED 71 when developing AASB 1058, the AASB does not express a view on SMC 9.