Public Sector Accounting Discussion Group

Report on the Public Meeting

May 6, 2014

The Public Sector Accounting (PSA) Discussion Group is a discussion forum only. The Group's purpose is to support the Public Sector Accounting Board (PSAB) by enabling discussion in a public venue of issues arising from the application of the CPA Canada Public Sector Accounting Handbook (PSA Handbook). The Group comprises members with various backgrounds who participate as individuals in the discussion. Any views expressed in the public meeting do not necessarily represent the views of the organization to which a member belongs or the views of PSAB. The discussions of the Group do not constitute official pronouncements or authoritative guidance.

This document has been prepared by the staff of PSAB and is based on discussions during the Group's meeting.

Comments made in relation to the application of the PSA Handbook do not purport to be conclusions about acceptable or unacceptable application of the PSA Handbook. Only PSAB can make such a determination.

Items Presented and Discussed

Sections PS 1201, PS 1300, PS 2601 and PS 3450: Presentation of Remeasurement Gains and Losses

Section PS 3070: Modified Equity Method – Implementing New Accounting Standards

Section PS 3250: "Shared-Risk" Retirement Benefit Arrangements

Section PS 3410: Constructive Obligations and Transfers Expense

ITEMS PRESENTED AND DISCUSSED

Sections PS 1201, PS 1300, PS 2601 and PS 3450: Presentation of Remeasurement Gains and Losses

The Group was asked to consider the circumstances of a non-government organization applying the PSA Handbook that controls an investment entity. The investment entity adopted International Financial Reporting Standards (IFRSs) on April 1, 2014.

Organizations applying the PSA Handbook, other than governments, adopted Section PS 1201, *Financial Statement Presentation*, for fiscal years beginning on or after April 1, 2012.[1] A statement of remeasurement gains and losses may need to be presented when Section PS 1201 is applied. Remeasurement gains and losses can arise due to the application of requirements in Section PS 2601, *Foreign Currency Translation*, and Section PS 3450, *Financial Instruments*.

Fact Pattern:

The organization prepares consolidated financial statements in accordance with the PSA Handbook. Its mandate is to administer a compulsory and contributory social insurance program. The organization controls an entity that invests contributions received in excess of program disbursements (hereafter referred to as "investment entity"). Until 2014, the investment entity applied standards in the CPA Canada Handbook – Accounting that apply to investment entities, including fair value measurement. The investment entity adopted IFRSs on April 1, 2014.

Consolidating the investment entity will present significant challenges. The organization asserts the most appropriate approach is to report operating results based on the overall change in the fair value of the investments (i.e., both net unrealized and net realized gains and losses). Although the organization applies the PSA Handbook, it currently reports all realized and unrealized gains and losses in the consolidated statement of operations.

The organization is not controlled by a government. It evaluated the available accounting frameworks and selected the PSA Handbook, but is not required to apply it. The PSA Handbook was selected because the organization is not a profit-oriented entity. The users of its financial statements are government organizations and legislators, while the contributors and beneficiaries for its program are Canadians.

The organization is also concerned with the transitional provisions in Section PS 3450. When an organization measures items at fair value prior to the transition to Section PS 3450, no accumulated remeasurement gains or losses are assigned, as the post transitional carrying value is the fair value at transition. The transitional provision was designed to ensure gains and losses would not be reported in the statement of operations a second time. As the investment entity has a large portfolio of investments and a high trading volume, the organization is concerned about the potential cost of tracking both the

[1] In the case of governments, Section PS 1201 applies to fiscal years beginning on or after April 1, 2016.

historical cost of each investment and the carrying value on transition. The need for this information arises as the investment entity and the organization apply different GAAP frameworks.

For example, an organization with a December 31 year end invests in securities and measures them at fair value prior to implementing Section PS 3450, presenting the gains and losses in its statement of operations. Consider the following information about a security it holds and how it is reported.

Purchased during 20X2	$50
Fair value at December 31, 20X2	$100
Fair value at December 31, 20X3	$125
Sold during 20X4	$200

Applying Section PS 3450 from January 1, 20X3, it would present the following:

Pre- or Post-transition:	Pre	Post	Post
For the year ended December 31	20X2	20X3	20X4
Statement of Operations			
Net investment income	$50	—	$100
Statement of Remeasurement Gains and Losses			
Opening, accumulated remeasurement gains and losses		—	25
Gain on investment	N/A	$25	75
Realized gain, reclassified to operations	N/A	—	(100)
Closing, accumulated remeasurement gains and losses	$25	—	—

Proposal A

Group members may ask PSAB to propose amending Section PS 3450 to allow public sector entities with a portfolio of assets and liabilities managed on a fair value basis a presentation option. The option would be to present unrealized gains and losses in the statement of operations. A variation on this approach would be to provide public sector entities with the option to present all gains and losses (both realized and unrealized) in the statement of operations. Public sector entities choosing this option would not present a statement of remeasurement gains and losses.

Proposal B

Group members may ask PSAB to propose amending the transitional provisions in Section PS 3450 to allow a public sector entity to report an opening position in accumulated remeasurement gains and losses account equal to the unrealized gains and losses associated with items in the fair value category at the date of transition. To illustrate the effect of View B, the information in the aforementioned illustration is reworked below.

Pre- or Post-transition:	Pre	Post	Post
For the year ended December 31	20X2	20X3	20X4
Statement of Operations			
Net investment income	$50	—	$150
Statement of Remeasurement Gains and Losses			
Opening, accumulated remeasurement gains and losses		$50	$75
Gain on investment	N/A	25	75
Realized gain, reclassified to operations	N/A	—	(150)
Closing, accumulated remeasurement gains and losses		$75	—

The Group's Discussion

Group members sought to clarify two aspects of the submission. It was explained that in accordance IFRS 10 *Consolidated Financial Statements,* an investment entity measures an investment in a subsidiary at fair value through profit and loss. The implication is that a control position does not result in consolidation of an investment, as the business purpose of an investment entity is to invest for capital appreciation, investment income or both. However, if the parent of the investment entity were to apply IFRSs, paragraph 33 of IFRS 10 would require the consolidation by the parent of any of the investment entity's subsidiaries. IFRS 10 does not afford the parent of an investment entity the same treatment as its subsidiary. The presenter indicated consolidation of investments would not be in keeping with the information the users of the financial statements seek and would be onerous to apply.

As the organization applies the PSA Handbook, clarification on the organization's application of Section PS 1300, *Government Reporting Entity*, was sought. Specifically, the presenters were asked to consider whether the investment entity might be a government business enterprise. In such a case, the investment entity would be accounted for using the modified equity method. The presenters explained that statutory requirements require the organization to consolidate the investment entity.

One member noted that if the organization was a pension plan, reporting on the investment entity would not be an issue. Accounting standards for pension plans in Part IV of the CPA Canada Handbook – Accounting would apply. Given the fact pattern presented for discussion, there is no easy answer.

Group members expressed mixed views. Some Group members did not take issue with the merits of reporting changes in the fair value of its investments in its consolidated statement of operations, given the organization's business purpose. These Group members supported Proposal A and the suggestion to adopt Section PS 3450 retroactively with restatement.

One Group member noted that investment entities controlled by some governments have implemented Section PS 3450, presenting unrealized gains and losses separately. For this reason, this Group member did not support either proposal.

Other Group members did not support the request to offer public sector entities with a portfolio of assets and liabilities managed on a fair value basis an option to present gains and losses in the statement of operations. These Group members suggested PSAB evaluate Proposal B.

The discussion identified an unrelated concern tied to the transition by governments to Section PS 3450. Allowing governments to defer implementation made the consolidation of government organizations more difficult. Even when governments adopt Section PS 3450, there may be ongoing consolidation adjustments in the case of government organizations that transitioned from pre-changeover standards in Part V of the CPA Canada Handbook – Accounting.

The Chair indicated that in reporting to PSAB, the following concerns will be noted:

(a) to consider how to respond to the information needs of users in the case of public sector entities who control investment entities;

(b) to assess options, including the one or both of the views advanced; and

(c) to consider issues specific to governments consolidating government organizations that transitioned from standards in Part V of the CPA Handbook – Accounting.

Section PS 3070: Modified Equity Method – Implementing new Accounting Standards

A government business enterprise (GBE) is directed to adhere to the standards applicable to publicly accountable enterprises in the CPA Canada Handbook – Accounting. When a GBE adopts a new standard, a change in an accounting policy occurs. New or amended standards may require prospective or retroactive application. Two issues were identified for a government reporting on a GBE it controls.

Issue 1 – What treatment applies when a government presents its net investment and income in GBE that adopted a new financial reporting standard?

View A – The government applies the application guidance the GBE is required to follow

When accounting for the effects of an accounting change implemented by the GBE due to the adoption of a new or amended standard, the same transition approach applies. The treatment in the GBE's financial statements dictates how the change is presented by the government. For example, if the GBE treats the accounting change retroactively; the effects of the change on the government's net investment in the GBE are given retroactive treatment (i.e., balances of prior periods are restated).

The modified equity method, described in *Investments in Government Business Enterprises,* paragraph PS 3070.05, states:

> "Under the modified equity method, the equity method of accounting is modified only to the extent that the government business enterprise's accounting principles are not adjusted to conform with those of the government. Thus, the government aggregates a government business enterprise's net assets and net income by adjusting the investment shown in the government's consolidated statement of financial position and by presenting the net income as a separate item on the government's consolidated statement of operations."

As such, the government implicitly adopts the accounting standards, including any choices made by the GBE.

This treatment ensures the disclosures of condensed supplementary financial information for the GBE, required by paragraph PS 3070.60, will agree with the amounts the GBE reported as well as the net investment and income from the GBE as presented in the government's financial statements.

Proponents of this view cite the importance of consistency, as described in *Financial Statement Concepts*, paragraph PS 1000.30.

View B – The government applies Section PS 2120, Accounting Changes

Paragraph PS 2120.13 states: "when a change in an accounting policy is made to conform to new Public Sector Accounting Standards… the new standards may be applied retroactively or prospectively."

When a new accounting standard is applied by a GBE, the government evaluates the impact and reflects the accounting policy choices made by the GBE on either a retroactive or prospective basis. For example, a GBE may be required to apply a new accounting standard retroactively. View B asserts these effects may be presented on either a retroactive or prospective basis in the government's financial statements.

View B is based on the provision in paragraph PS 2120.13 that provides this flexibility when implementing new standards.

View C – The government applies the effect of the change prospectively or retroactively with no restatement of prior periods

Any adjustment in the government's net investment in the GBE is not attributable to an accounting policy choice of the government, nor is it an accounting error. From the government's perspective, its accounting policy for the GBE is to use the modified equity method to account for the GBE's financial position and the income arising from its investment. This policy did not change.

As the government did not change its accounting policy, there is no basis upon which to restate the net investment balance or income of the GBE, attributable to past reporting periods.

The Group's Discussion

The majority of Group members supported View A because Section PS 3070 directs a government to apply the modified equity method when reporting on a GBE. Under modified equity accounting, accounting policies applied by the GBE are not modified by the government. In the view of the Group members, the government and the GBE should take the same approach when presenting the effects of an accounting change. Applying View A ensures the GBE's condensed financial information, as included in the summary financial statements of the government, is comparable and consistent with the GBE's own financial statements.

Group members noted that in many cases an accounting change implemented by a GBE is of minor financial consequence in relation to amounts reported in the government's summary financial statements. Several Group members observed that any restatement of the prior year operating results of a government is a sensitive matter. Some Group members felt that if the effect was not material, it would not be useful or necessary to restate comparative figures.

Some other views were expressed. One Group member expressed the view that a government should be able to assess options permitted by Section PS 2120 when presenting an accounting change made by a GBE. Another Group member stressed the importance of the measure of the annual surplus or deficit as a public policy benchmark. To protect the creditability of this measure, any changes that require retroactive application should be presented without restatement in the accounts of government.

Issue 2 – When the GBE accounts for the effects of the accounting change prospectively or retroactively without restatement, there is a change in the government's net investment in the GBE. How is the effect of this change presented in the government's financial statements?

View A – Adjust the opening net investment in the GBE and adjust the opening accumulated surplus/deficit.

The government makes a cumulative adjustment to the opening net investment in the GBE and adjusts the opening accumulated surplus/deficit.

Proponents of this view cite the reference included in paragraph PS 3070.07(c):

> "The investment in a government business enterprise, as reflected in government financial statements under the modified equity method, includes the cost of the government's investment in the government business enterprise, calculated in accordance with paragraphs PS 3070.10-.11, and, subsequent to the date when the use of the modified equity method first became appropriate, also includes adjustments for:
>
> …
>
> (c) the government's proportionate share of prior period adjustments (i.e., a change in accounting policy or a correction of an error relating to prior period financial statements) …"

Proponents of View A note that paragraph PS 3070.08 does not provide for adjusting the government's proportionate share of GBE earnings for the effects of a change in accounting policy. Therefore, this adjustment would need to be reflected in the opening accumulated surplus/deficit.

View B– Adjust the opening net investment in the GBE and adjust the proportionate share of GBE earnings.

The government reports the effects of the accounting change in the government's proportionate share of the GBE earnings. Proponents of this view argue any change in the government's net investment in the GBE arising from the adoption of a new accounting policy is a matter associated with the period the policy is adopted and, accordingly, is an event reported in the statement of operations. As the change in the investment in the GBE is not attributable to an accounting error, it is properly presented as income from an investment in a GBE.

The Group's Discussion

Group members supported View A, adjusting the opening net investment in the GBE and adjusting the opening accumulated surplus/deficit. View A reflects the guidance in paragraph PS 3070.07(c).

Section PS 3250: "Shared-Risk" Retirement Benefit Arrangements

Some jurisdictions have amended, or are planning to amend, legislation allowing retirement benefit arrangements described as "shared-risk" plans.

Issue

Opposing views are emerging on the classification of retirement benefit arrangements with "shared-risk" characteristics. Views have emerged as accountants attempt to reconcile the contractual terms of these plans with the definitions of defined contribution plans that focus on inputs (employer contributions), and defined benefit plans that focus on outputs (benefit obligations and methods to measure benefit obligations).

Fact Pattern:

- Funding is shared between the employees and the employer (for example, 10 per cent of salaries).
- Funding is set to meet certain risk management goals:
    - the primary risk management goal is at least a 97.5 per cent probability that the past base benefits at the end of each year will not be reduced over a 20-year period after taking into account the funding deficit recovery plan; and
    - the secondary risk management goal is that the expected escalated adjustment of the base benefit exceeds 75 per cent of the increase in consumer price index on average over a 20-year period (for plans that have a final average salary formula).
- If funding levels are not sufficient to meet the goals, a funding deficit recovery plan is mandated. Funding deficit recovery actions available are as follows:
    - an increase in contributions, not to exceed the greater of 2 per cent of earnings in respect of which contributions are made, and 25 per cent of the initial contribution rate;
    - a reduction or removal of ancillary benefits if they are not vested ancillary benefits;
    - a reduction of future base benefits if the amount of the reduction does not exceed 5 per cent of the amount of the base benefits in effect immediately before the funding deficit recovery plan is implemented;
    - a reduction of remaining future base benefits; and
    - if the above actions are not sufficient, a reduction of past base benefits of members and former members (until the funded ratio returns to 105 per cent and the risk management goals (listed above) are met).
- Upon termination or retirement of a member, actual benefits paid or payable to a member (i.e., "the termination value") are calculated as the member's share of the plan assets at the time of termination. That termination value is the greater of:
    - employee contributions and interests thereof (defined as the rate of return on the pension fund less administration expenses absorbed by the plan); and

  - actuarial value of the base and ancillary benefits times the funded ratio.

  This means that benefits payable to plan members cannot exceed funds available in the plan at any given point in time.

- Governance is provided by an independent board of trustees with representatives from the employees and the employer. Each trustee is mandated to act independently of the person who appointed him or her. The employees and the employer appoint an equal number of trustees.
- The terms of the plan indicate that: "The sole obligation of persons making contributions under a shared risk plan is limited to making or remitting, within the time prescribed by regulation, the contributions required under the plan text and the funding policy."
- In the case of a plan wind-up, plan members would be entitled to a wind-up value. The wind-up value is equal to:
  - funding policy liabilities of the benefits that each member or former member is entitled to multiplied by the funded ratio at that time.

View A

The plan is not a defined contribution plan because the employer is exposed to potential variability in contributions. *Retirement Benefits*, paragraph PS 3250.12, states that for a defined contribution plan the government makes a specific fixed contribution in each period; if that contribution is made, no additional contributions are required now or in the future for the related service. When the employer has residual risk, the plan is, by definition, a defined benefit plan. A defined contribution plan is one where the employer retains no risk. While the likelihood an employer would need to increase contributions may be low, this is not relevant.

View B

The plan is a defined contribution plan. While contributions may vary in the future, the potential that employer contributions can increase is predetermined and capped. Benefit payments cannot exceed funds available in the plan and may be reduced if funding is insufficient. Proponents of this view believe the employees collectively bear the risk that the plan assets will be sufficient. A defined benefit liability does not exist as the employer's sole obligation is to make the specified contributions.

The Group's Discussion

Group members noted it is becoming more difficult to distinguish between the types of retirement benefit arrangements. Some new retirement benefit arrangements no longer carry "promises". Instead, they include "targets" funded by both the employees and the employer. In determining how to account for these new retirement benefit arrangements, the preparers of financial information must have a good understanding of the employer's responsibilities and possible financial effects attributable to the legal rights of employees, when these arrangements are amended.

Group members observed that current pension accounting standards reflect a historic pattern where pension plans tended to be either defined benefit or defined contribution. It was suggested that a third

classification may be needed as many of the new plans include characteristics that fall somewhere in between defined benefit and defined contribution as defined in accounting standards.

An example was cited where the concept and impact of materiality was applied to assess whether, in substance, the employer's contributions are fixed. In the example cited, the conclusion was that contributions would only increase due to an improbable event and, even in such a case, the amount would be immaterial. Based on this assessment, the plan was accounted for as a defined contribution plan. A third classification might include a threshold, for plans that are not materially different from traditional defined contribution plans.

One Group member asked if another point of view was considered, namely a hybrid plan consisting of both a defined benefit and a defined contribution component. It was explained that this option had been considered but not retained, since in practice it is difficult to separate the components of a pension plan.

In the case of the illustration, a majority of Group members supported View A. While there was a transfer of risk, Group members noted it is possible that the employer's contributions could increase. Section PS 3250 defines a defined contribution plan as "one in which the employer's contributions are fixed". As a result, the arrangement is not a defined contribution plan and by default is accounted for as a defined benefit plan. One Group member advanced an alternative view. The Group member stressed the possibility that a sole trustee can transfer responsibility to a new joint trustee board whereby the pension plan can continue to be a defined benefit plan but the defined benefit obligation is that of the joint trustee board rather than the employer. The employer would have no legal or accounting obligation for the provision of employee retirement obligations. As such, Section PS 3250 would not apply; rather Section PS 3200, *Liabilities,* would apply for the employer's accounting and reporting purposes. If it can be shown that the employer's contribution obligations were fixed for a term into the future, say five years, it was argued that the contribution is defined until circumstances change.

During the discussion, it was observed that the definition of a defined contribution plan is different in accounting standards for pension plans. Part IV of the CPA Handbook – Accounting defines a defined contribution pension plan as "a pension plan that specifies how an entity's contributions to the plan are determined rather than the benefits to be received by the employee or the method of determining those benefits." As a consequence, it is possible that an employer may need to account for a defined benefit obligation when the plan's own financial statements present it as a defined contribution plan.

Several members suggested there is a need to develop guidance that responds to how retirement benefit arrangements are evolving. The Chair observed that the discussion had identified a number of points for PSAB to evaluate.

Section PS 3410: Constructive Obligations and Transfers Expense

Section PS 3410, *Government Transfers*, sets out requirements governing the recognition of an expense by a transferring government. The Group is asked to consider application of the PSA Handbook when the enabling legislation, regulations or by-laws for a government transfer are in place by the financial statement date.

At issue is whether a transfer expense can arise from a constructive obligation. Specifically:

- should a government record a transfers expense based on a preponderance of evidence that the government has little or no discretion to avoid the transfer (as in Section PS 3200); or
- does the recording of a transfers expense require an exercise of authority such that the government has lost its discretion to avoid the transfer (as in Section PS 3410).

Fact Pattern:

- Paragraph PS 3410.12 indicates recognition of an expense by the transferring government occurs in the period the transfer is authorized and all eligibility criteria have been met by the recipient.
- Paragraph PS 3410.28(a) is considered to assess whether authorization has occurred. This paragraph does not apply, as it only needs to be considered when final approval of the enabling legislation, regulations or by-laws occurs subsequent to the financial statement date, in a stub period.
- In this instance, the requirement in paragraph PS 3410.28(a)(i) is met as the legislation, regulations or by-laws necessary to enable the transfer are in place by the financial statement date.
- However, for the government transfer to have been authorized, there must also be an exercise of authority, as set out in paragraph PS 3410.28(a)(ii).

Paragraph PS 3410.28 states:

.28 *For a transferring government, a government transfer is authorized for the purposes of this Section when either the authorization described in (a) or (b) is in place.*

(a) There is evidence that both of the following have occurred by the financial statement date:

(i) the enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of the transferring government, and

(ii) an exercise of authority under that approved legislation, regulations or by-laws has occurred. In essence, a decision has been made by the transferring government under the approved legislation, regulations or by-laws that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer.

(b) There is evidence that both of the following have occurred:

(i) actions and communications of the transferring government by the financial statement date clearly demonstrate that it has lost its discretion to avoid proceeding with a transfer and thus the government is demonstrably committed to approving the enabling legislation, regulations or by-laws for the transfer and proceeding with the transfer; and

(ii) final approval in the stub period of the enabling legislation, regulations or by-laws confirms that the transferring government was demonstrably committed to approving and proceeding with the transfer at the financial statement date.

...

View A

The government assesses whether it has a transfer expense and liability based on Section PS 3410. In the situation where legislation, regulations or by-laws necessary to enable the transfer are in place by the financial statement date, Section PS 3410 requires exercise by the government of that authority prior to the financial statement date. This is evidence of a decision by the government that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer.

The exercise of an authority for a transfer is a conscious decision by a government and may take the form of, for example, an approval by a treasury board or cabinet, the signature of a minister or a delegate, or the signing of a contract.

View B

The government assesses whether it has a constructive obligation and transfer expense as described in Section PS 3200, *Liabilities*. The implication is that a liability may need to be recognized based on a professional judgment that the government has little or no discretion to avoid the obligation, notwithstanding that the requirements in paragraph PS 3410.28(a)(ii) are not met.

Those holding View A note:

The purpose and scope of Section PS 3200 states:

.01 This Section:

(a) provides guidance for applying the definition of liabilities set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general recognition and disclosure standards for liabilities; but

(b) does not include standards for recognition and disclosure of specific types of liabilities, which are dealt with in individual CPA Canada Public Sector Accounting Handbook Sections.

Paragraphs PS 3410.29-.30, which refer to a preponderance of evidence regarding the existence of a liability and refer the user to Section PS 3200 to determine whether a preponderance of evidence exists only apply in situations that fall under paragraph PS 3410.28(b). That is, these paragraphs apply only where the enabling legislation, regulations or by-laws were not in place at the financial statement date but are passed in the stub period.

The Group's Discussion

In seeking to clarify the matter at issue, the Chair asked the presenter to outline an example. The following specific characteristics were identified:

(a) the recipient uses some or all of the proceeds to acquire capital assets;

(b) the transferring government has regulatory authority over the recipient's borrowing;

(c) the recipient may or may not be part of the government reporting entity; and

(d) the recipient must annually seek and obtain approval for funding.

Enabling legislation for the government to make transfers of this nature to recipients of this type is in place. As such, at issue is how to apply the requirements in paragraph PS 3410.28(a)(ii). What constitutes an exercise of authority?

The submission identifies two distinct alternatives. Under View A, authorization of a transfer requires tangible evidence of a conscious decision such as a signature or cabinet minute. Under View B, other forms of evidence would be assessed, such as when determining whether a government has a constructive obligation as described in Section PS 3200. View B was described as raising the possibility that a government could “back into a liability”.

The Group sought to clarify aspects of the example as described. Would the recipient have any viable alternative to government funding? The presenter indicated that recipients are encouraged to fundraise. Was there an agreement? The presenter indicated there was no agreement. It was noted that if there was a contract in place, the issue would not be as contentious. Professional judgment comes into play when there is no contract and a lot of communication between the parties takes place.

A discussion of various situations ensued. Circumstances were cited where communications made by a transferring government put it in a situation where a valid expectation among others was created and, as a result, a government had no realistic alternative but to settle its obligation. It was noted that paragraphs 25-27 of the Basis for Conclusions on government transfers, cite demonstrable commitment as an authorization concept. For this and other reasons, most of the Group members found aspects of View B relevant but emphasized the need to evaluate situations individually and apply professional judgment.

Group members noted that the relationship of the recipient to the government matters. In this regard, it matters whether the recipient is controlled by the funding government and the mandate the recipient was given. When a recipient is not part of the government reporting entity and an annual decision or evaluation is conducted, a constructive obligation is less likely.