



**The Japanese Institute of
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Mr. Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario, Canada M5V 3H2

**Comments on
Exposure Draft 70 “Revenue with Performance Obligations”**

Dear Mr. Smith,

The Japanese Institute of Certified Public Accountants (hereafter “JICPA”) highly respects the International Public Sector Accounting Standards Board (hereafter “IPSASB”) for its continuous effort to serve the public interest. We are also pleased to comment on the Exposure Draft 70 “Revenue with Performance Obligations” (hereafter “ED”). Our comments to ED 70 are as follows.

General comments

1. Clarification of the definition of “third-party beneficiary”

In the definition of “performance obligation” in paragraph 7 of ED 70, the “purchaser” and “third-party beneficiary” are listed as the transfer recipient of a good or service that is distinct, which is an extension of the definition of “performance obligation” of IFRS 15. This “third-party beneficiary” is defined as “an entity, household or individual who will benefit from a transaction made between two other parties by receiving goods, services or other assets.”

To clarify third-party beneficiary is related to performance obligation, we recommend changing “goods, services or other assets” in the definition to “distinct goods, services or other assets.”

2. Clarification of the scope of application of the standard

To clarify the scope of ED 70 and ED 71, we recommend the IPSASB to add the “Table 1: Scope of ED 70, Revenue with Performance Obligations” of AT A GLANCE to the IG (Implementation Guidance) section.

3. Attributes of a performance obligation

As a requirement to identify performance obligations, AG35 states that the promise must be sufficiently specific to be able to determine when that performance obligation is fulfilled. In identifying performance obligations that are sufficiently specific, it requires an entity to consider factors (a) through (d).

While the current wording provides a limitative listing of conditions, we believe that these conditions should be given in a non-exhaustive listing similar to those provisions of IFRS 15.

Furthermore, the factors to be considered should include the transfer recipients of the goods or services. We believe that, unlike IFRS 15, being able to identify the transfer recipients of the goods or services will become a crucial factor in the analysis of the performance obligation, given the existence of a third-party beneficiary.

Specific Matter for Comment 1 :

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?

Comment:

We agree.

As a binding arrangement is an extension of the concept of a contract, we believe that the definition should clearly state that the binding arrangement confers rights and obligations to both parties to distinguish it from arrangements that only confer rights and obligations one-way, i.e. to one party.

Specific Matter for Comment 2 :

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?

Comment:

We agree.

As stated in paragraph BC21, given that the same accounting treatment will be applied to the recognition and measurement of revenue within their respective standards, the introduction of a definition that would be a subset of revenue within the same standard is unnecessary and such a definition could give rise to divergences in accounting treatment by the relevant parties.

Specific Matter for Comment 3 :

Because the IPSASB decided to develop two revenue standards—this Exposure Draft on revenue with performance obligations and ED71 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?

Comment:

We partially agree but would like to add following comments.

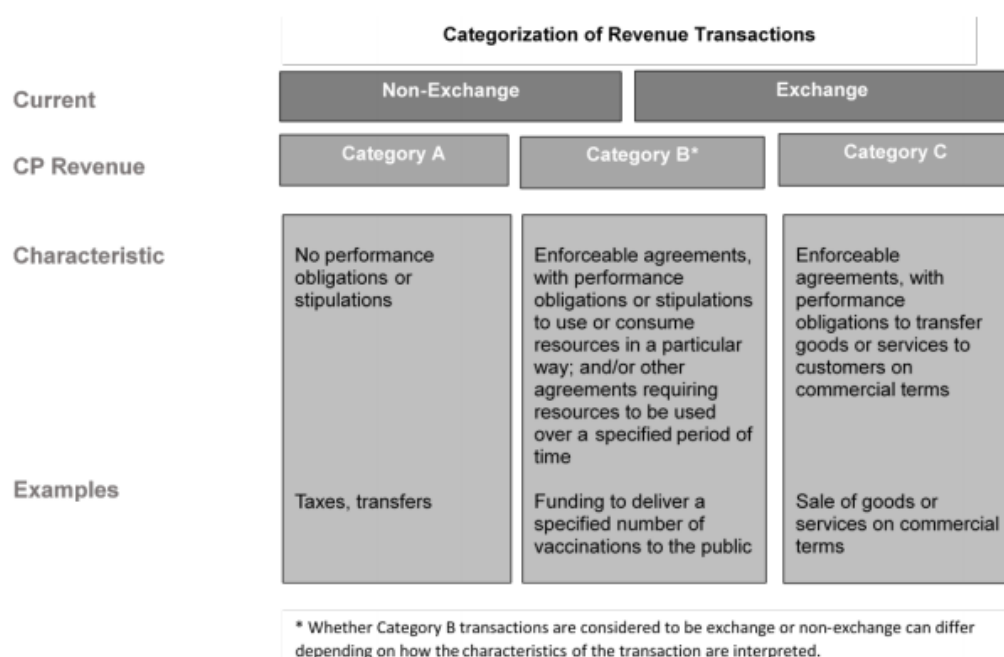
1. Addition of requirements to rebut the presumption

In paragraph BC59, IPSASB states that it considered the use of measurement-based criteria, for example, stand-alone prices, but explained that such criteria were not adopted because of the possibility of unintended consequences arising. However, in cases where observable prices of goods or services exist, for example, when separate cases exist in which similar goods or services were provided to a similar purchaser at similar transaction prices, a reasonable distribution through such prices is thought to be possible. Therefore, requirements should be added to rebut the presumption.

2. The relationship between exchange/non-exchange transactions and paragraph AG70

Paragraph AG70 of this ED touches upon the refund obligation in cases of failure to perform obligations and partially adheres to the concept of exchange and non-exchange transactions in the current revenue standards. Accordingly, we believe that providing a table in the IG section clarifying the differences between the current and proposed revenue standards would support the understanding of the user. Revising and inserting the table on the categorization of revenue found in the Consultation Paper, *Accounting for Revenue and Non-exchange Transactions*, would be one possibility.

The diagram below illustrates the categorization of transactions.



Specific Matter for Comment 4 :

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?

Comment:

We agree.

If the accounting of ED 70 is to be aligned with that of IFRS 15, the disclosure requirements should also align with that of IFRS 15. Removing the disclosure requirements would cause undue confusion among the users. Additionally, such disclosures would be neither unnecessary nor impractical for the public sector entities.

Specific Matter for Comment 5 :

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.

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?

Comment:

We agree.

However, there are cases in IFRS 15 in which it is difficult to distinguish between an implicit price concession and credit risk, and consequently, a decision was reached not to develop detailed requirements for entities to distinguish between giving implicit price concessions and incurring impairment losses (IFRS 15, BC194). Nevertheless, in ED 70, public sector entities are required to disclose the process of giving implicit price concessions, which seems to depart from IFRS 15. Paragraph BC50 of ED 70 explains that the disclosure requirement was added simply because of the usefulness of such information. We request the IPSASB to consider the perspective of IFRS 15 BC194.

Yours sincerely,

Hiroshi Shiina

Executive Board Member - Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants