November 1, 2020

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John Stanford
Technical Director
International Public Sector Accounting Standards Board
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Dear John Stanford:

RE: Exposure Draft 70: Revenue with Performance Obligations

Thank you for the opportunity to provide comments on the exposure draft; *Revenue with Performance Obligations*. The views expressed in this letter reflect the views of the Government of the Province of British Columbia, including central agencies, ministries and entities consolidated into the British Columbia Summary Financial Statements. The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. We have an interest in the development of the International Public Sector Accounting Standards Board's (IPSASB) guidance as it may influence future PSAB standards.

The exposure draft meets its objective by establishing principles for entities to apply when reporting information about revenue with performance obligations. A binding arrangement is an appropriate term to capture and describe government transfers; however, there may be situations where the enforceable rights of both parties are challenged.

Comment Period Extension

Even with a large team of experienced accounting professionals, we found it difficult to review all the material provided in the time allowed, particularly when combined with Exposure Drafts 71 and 72, and the effects of the global COVID-19 pandemic. While we appreciate the original due date extension from September 15, 2020 to November 1, 2020, we are concerned that many stakeholders will not have the resources to adequately review these complex and lengthy documents within the current requested response date. We recommend that an additional extension to the comment period be provided.

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Alignment with IFRS

We recognize IPSASB's goal to provide standards that are aligned with International Financial Reporting Standards (IFRS). The objectives of for-profit entities do not align with taxpayer-supported public sector entities and their focus on service delivery. We are concerned that IPSASB's approach does not adequately consider the interests or needs of the public with regards to the impacts of non-exchange transactions.

The proposed views do not consider a government's legislated financial framework, which includes preparing a budget and communicating a government's accountability for actual results against that budget on a line by line basis through the financial statements. It can be difficult to directly compare asset/liability focused financial statements with revenue/expense focused budgets.

Scope

The scope may be too prescriptive and too narrow if it is not flexible with the definition of performance obligations. The primary purpose of public sector entities is to deliver public services and goods to enhance or maintain the wellbeing of the public. Funding agreements are non-exchange transactions with entities whose sole purpose is to serve third party beneficiaries – the public. The exposure draft proposes that the obligation must be to the purchaser or a third party for a performance obligation to exist. Certain funding agreements may not be explicitly with a third party, but the substance of the agreement is for service delivery to the public generally.

The current suite of exposure drafts requires accounting professionals to distinguish between transfers that are specific or general in nature. In other words, if the transfer is to support the objectives of the resource recipient, this could result in present obligations; but if the transfer was to support a specific program the resource recipient was responsible for, then it may qualify as a performance obligation. The difference between a transfer to a recipient with performance obligations and a transfer to a recipient with present obligations can be subjective. Requiring different accounting treatment for transferring governments based on a distinction between what does or does not qualify as benefits to third parties may lead to inconsistent application. It may be more appropriate to consider recognition based on the recipient's obligation to the purchaser or to a third-party beneficiary, including the public, that meets the definition of a liability.

Disclosures

We agree that users of financial statements should understand the nature, amount, timing and uncertainty of revenue and cash flows. However, in some instances the level of detail proposed in the exposure draft may be too specific and onerous to collect for summary level financial statements. We caution against excessive detail in government summary financial statements, which are intended for the broad use of the legislature and the public.

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Responses to specific questions posed in the exposure draft are attached. Should IPSAB have any comments or questions, please contact me at: 250-387-6692 or via e-mail: Carl.Fischer@gov.bc.ca, or Diane Lianga, Executive Director, Financial Reporting and Advisory Services Branch, at 778-698-5428 or by e-mail: Diane.Lianga@gov.bc.ca.

On behalf of the Government of British Columbia,

Sincerely,

Carl Fischer, CPA, CGA
Comptroller General
Province of British Columbia

Encl.

cc: Michael Pickup, FCPA, FCA
Auditor General
Province of British Columbia

Diane Lianga, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

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?

We agree that the scope of the exposure draft with reference to binding arrangements is clear.

In our view, there is a scope issue when determining if there is a present obligation or a performance obligation. There may be conflicting perspectives when determining if there is a third-party beneficiary or whether the transfer recipient is the beneficiary; primarily when the transfer recipient's main objective is to provide services to the public (e.g. hospitals, transit, etc.)

Present obligation: Transfer agreement states the funds are to assist with general operations.

Performance obligation: Transfer agreement states that the funds are to assist with a specific program which falls under the general operations of the transfer recipient.

On occasion, differences in the purpose of a transfer agreement, whether it is specific or general in nature, can be hard to classify and may not be fundamentally different; however, the accounting impact to the transfer provider is substantially different. This could lead to a difference in application.

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?

Yes, we agree with IPSASB's decision. Including the definition within both ED 70 and 72 is not required.

Specific Matter for Comment 3:

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?

We agree that it is appropriate to provide guidance for arrangements that have a dual purpose of obtaining goods or services and to help the entity achieve its objectives. However, we are not in agreement with requiring symmetrical accounting as it is not a fundamental principle of accounting policy. Therefore, we recommend that the board reconsider its position in ED 72 with respect to the public sector performance obligation approach.

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?

We are not in agreement with the alignment of disclosure requirements of IFRS. The current exposure draft proposals are very detailed and there is a cost associated with gathering and auditing this information.

Consider removing the following disclosure requirements:

- Significant Judgements Para 109 (b), 124-127
- Costs to obtain/fulfill binding arrangement Para 109 (c), 128-129
- Impairment losses Para 113 (b)
- Disaggregation of Revenue Para 114-115

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.

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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?

Yes, we agree to add the disclosure requirement. If it is material, adding the disclosure requirement can help financial statement users understand the nature and uncertainty (collectability) of the revenues.