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The Accounting Officer

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Standards Board (IPSASB)
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Dear IPSAS Board,

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The ITER Organization (IO) is pleased to respond to IPSASB's Exposure Drafts 70, 71 and 72.

We support IPSASB in its overall objective of creating a common standard for revenue from exchange transactions and non-exchange transactions, and we believe that the work done by the IPSASB to date as reflected in the exposure drafts would form the basis for clear and robust standards on revenue recognition and transfer expenses.

Our detailed responses to the request for comments are included in the boxes in Appendix 1 (ED70 Revenue with Performance Obligations), Appendix 2 (ED71 Revenue without Performance Obligations) and Appendix 3 (ED72 Transfer Expenses) to this letter.

About the ITER Organization (IO)

The purpose of the ITER Organization shall be to provide for and promote cooperation among its Members on the ITER Project, which is an international project that aims to demonstrate the scientific and technological feasibility of fusion energy for peaceful purposes, an essential feature of which would be achieving sustained fusion power generation.

The purpose, functions and other organizational aspects of the IO are set out in the 'Agreement on the Establishment of the ITER International Fusion Energy Organization for the Joint Implementation of the ITER Project' which has been registered and published by the United Nations Secretary General pursuant to Article 102 of the Charter of the United Nations at the request of the Depositary (the Director-General of the International Atomic Energy Agency). The agreement is available at: <https://www.iaea.org/fr/publications/documents/infcircs/agreement-establishment-iter-international-fusion-energy-organization-joint-implementation-iter-project>.

The agreement entered into force on 20 November 2007, after ratification, acceptance or approval by its Members being the European Union (represented by Euratom), Japan, the People's Republic of China, the Republic of India, the Republic of Korea, the Russian Federation and the United States of America.

The IO has therefore an international legal personality and provides and promotes cooperation on the ITER Project among its Members.

According to Article 3 of the ITER Agreement, the IO shall construct, operate, exploit and de-activate the ITER facilities, and encourage the exploitation of the ITER facilities by the laboratories, other institutions and personnel participating in the fusion energy research and development programs of the Members.

For this purpose, the IO is building a "Tokamak" machine in the South of France. The construction of the infrastructure started in 2007 and its startup (defined as 'First Plasma') is expected by late 2025. The Operation Phase of the ITER Project would be for 20 years, according to the Common Understandings associated with the ITER Agreement. The multi billion Euros estimated cost to be invested for construction over more than 15 years only represent a fraction of the total costs. The biggest part is being delivered in kind by the Members. The ITER Project Specifications, which also include the technical objectives and operational requirements of the ITER Machine, are approved by the ITER Council, which is the Governing Body of the IO.

The resources of the IO are made available by the Members following their own specific legislative and budgetary processes. There is no recourse foreseen to refund or return such moneys in the manner foreseen in the case of private sector organizations.

They shall comprise as per article 8 of ITER agreement:

"a) contributions in kind, as referred to in the document "Value Estimates for ITER Phases of Construction, Operation, Deactivation and Decommissioning and Form of Party Contributions", comprising: i) specific components, equipment, materials and other goods and services in accordance with the agreed technical specifications and ii) staff seconded by the Members;

b) financial contributions to the budget of the ITER Organization by the Members (hereinafter 'contributions in cash'), as referred to in the document "Value Estimates for ITER Phases of Construction, Operation, Deactivation and Decommissioning and Form of Party Contributions";

c) additional resources received either in cash or in kind within limits and under terms approved by the Council.

The respective Members' contributions over the duration of this Agreement shall be as referred to in the documents "Value Estimates for ITER Phases of Construction, Operation, Deactivation and Decommissioning and Form of Party Contributions" and "Cost Sharing for all Phases of the ITER Project" and may be updated by unanimous decision of the Council.

The resources of the ITER Organization shall be solely used to promote the purpose and to exercise the functions of the ITER Organization in accordance with Articles 2 and 3 of the ITER Agreement.

Each Member shall provide its contributions to the ITER Organization through an appropriate legal entity, hereinafter "the Domestic Agency" of that Member, except where otherwise agreed by the Council. The approval of the Council shall not be required for Members to provide cash contributions directly to the ITER Organization."

The IO prepares its annual financial statements in accordance with IPSAS and shares them online at the following address: (<https://www.iter.org/org/team/odg/comm/FinancialStatements>).

Should you have any questions concerning our comments, please do not hesitate to contact me.

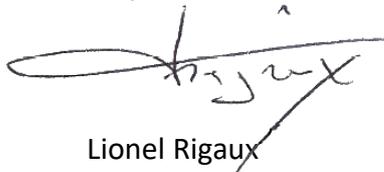
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Yours sincerely,



Lionel Rigaux

Accounting, Treasury
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The Accounting Officer**APPENDIX 1 ED 70 Revenue with Performance Obligations****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?

ED 70 proposes the following definition of a binding arrangement: "A binding arrangement is an arrangement that confers both enforceable rights and obligations on both parties to the arrangement." This definition implies that a binding arrangement has only two parties to the arrangement. This is different from the proposed definition of a contract: "A contract is an agreement between two or more parties that creates enforceable rights and obligations."

IO considers ED 70's proposed definition of a binding arrangement too narrow because a binding arrangement may exist between more than two parties.

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Binding arrangements between multiple parties are quite common in the public sector. For example, a treaty between governments may establish an intergovernmental organization and confer enforceable rights and obligations on the intergovernmental organization and on its member states. For example, the ITER Agreement confers (i) an obligation to construct, operate, exploit, and de-activate experimental facilities for nuclear fusion on the ITER Organization, (ii) a right to receive contributions in kind (components of the experimental facilities) and financial contributions from the member states.

Another example of a binding arrangement between multiple parties is an agreement between a number of municipalities establishing a shared-service center for waste collection or common support functions such as invoicing. Such an agreement confers enforceable rights and obligations on the shared-service center and the municipalities (purchasers).

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?

IO agrees with IPSASB that there is no need to define "transfer revenue with performance obligations" in ED 70 and "transfer revenue" in ED 71, as their recognition and measurement is the same as other types of revenue within their respective standards.

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?

IO agrees with the application guidance in AG69-AG70 about the accounting for transactions with components relating to both ED 70 and ED 71.

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?

IO agrees with the extensive disclosure requirements in ED 70, aligned with those in IFRS 15, as there is no public-sector specific reason to deviate from IFRS. Entities in the public sector need to be accountable to constituents for their use of public funds. IO acknowledges that there are small entities in the public sector, such as municipalities with numerous different revenue streams, that may find these disclosure requirements onerous. However, this needs to be considered in the context of differential reporting, i.e. the development of a less complex set of requirements for small and medium sized public sector entities, with generally simple transactions, for which full IPSAS requirements are too onerous. In its 2019–2023 strategy, IPSASB has decided not to address differential reporting.

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?

The ITER Organization agrees with the 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. However, the disclosure requirement now seems to apply to all government services mandated by legislation or other governmental policy decisions. There is a need to clarify that this disclosure requirement only applies if payment of the consideration for delivery of the good or service is not probable.

The Accounting Officer**APPENDIX 2 ED 71 Revenue without Performance Obligations****Specific Matter for Comment 1: (Paragraphs 14-21)**

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 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 Standard?

IO agrees with IPSASB's proposals that for the purposes of this Standard, Revenue without Performance Obligations, a specified activity and eligible expenditure give rise to present obligations.

IO suggests including a definition of present obligation. Whether there is a present obligation or not, is decisive in the accounting treatment. Without a definition there might be a diverging interpretation.

IO is not aware of other examples of present obligations that would be useful to include in the Standard.

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Specific Matter for Comment 2: (Paragraph 31)

The flowchart that follows paragraph 31 of this Standard illustrates the process a transfer recipient undertakes to determine whether revenue arises and, if so, the relevant paragraphs to apply for such revenue recognition.

Do you agree that the flowchart clearly illustrates the process? If not, what clarification is necessary?

IO agrees that the flowchart clearly illustrates the process.

Specific Matter for Comment 3: (Paragraph 57-58)

The IPSASB decided that a transfer recipient recognizes revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation.

Do you agree that sufficient guidance exists in this Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, what further guidance is necessary to enhance clarity of the principle?

IO considers the guidance provided by draft Standard ED 71 insufficient. Paragraph 57 merely states that the transfer recipient shall recognize revenue without performance obligations when (or as) the transfer recipient satisfies the present obligation. Draft Standard ED 71 does not clarify how to determine whether the entity satisfies the present obligation over time or satisfies the present obligation at a point in time. The clarity of this distinction could gain from additional guidance along the lines of paragraphs 34-37 in ED 70, which include a number of helpful criteria (ED 70, paragraph 34) to determine whether a performance obligation is satisfied over time or at a point in time. ED 70, paragraph 37 also includes indicators to determine at what point in time the entity satisfies the performance and should recognize revenue. If the same principles apply to present obligations, a reference in ED 70, paragraph 58 to paragraphs 34-37 in ED 70 might suffice.

Specific Matter for Comment 4: (Paragraphs 80-81)

The IPSASB decided that the objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the arrangement so that it depicts the amount to which the transfer recipient expects to be entitled in satisfying the present obligation. The amount of revenue recognized is a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.

Do you agree sufficient guidance exists in this Standard to identify and determine how to allocate the transaction price between different present obligations? If not, what further guidance is necessary to enhance clarity of the principle?

IO agrees sufficient guidance exists in ED 71 to identify and determine how to allocate the transaction price between different present obligations.

Specific Matter for Comment 5: (Paragraphs 84-85)

Do you agree with the IPSASB's proposals that receivables within the scope of this Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments? If not, how do you propose receivables be accounted for?

IO disagrees with the measurement of receivables within the scope of ED 71 in accordance with the requirements of IPSAS 41, Financial Instruments. According to IPSAS 28, "A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity." Some receivables within the scope of ED 71 are clearly not financial instruments, such as tax receivables as they do not originate from a contract between the government and the tax payers, but from the tax law. This is the very reason why ED 70 and ED 71 distinguish between contracts and binding arrangements.

Specific Matter for Comment 6: (Paragraphs 126-154)

The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.

Do you agree the disclosure requirements in this Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations? In

particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?

IO agrees with the disclosure requirements in ED 71.

Specific Matter for Comment 7: (Paragraphs N/A)

Although much of the material in this Standard has been taken from IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers), the IPSASB decided that the ED should establish broad principles for the recognition of revenue from transactions without performance obligations, and provide guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. The way in which these broad principles and guidance have been set out in the ED are consistent with that of [draft] IPSAS [X] (ED 72), Transfer Expenses.

Do you agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out? If not, what improvements can be made?

IO agrees with the approach taken in the ED and that the structure and broad principles and guidance are logically set out.

The Accounting Officer**APPENDIX 3 ED 72 Transfer Expenses****Specific Matter for Comment 1:**

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?

IO agrees with the scope of ED 72 as it aligns with definition of transfers in the statistical reporting frameworks and is therefore consistent with the IPSASB's Policy Paper, Process for Considering GFS Reporting Guidelines during Development of IPSASs.

Specific Matter for Comment 2:

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?

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IO agrees with the proposal in ED 72 to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations. However, it would require amending the definition of performance obligation accordingly. The definition in ED 71 is "A performance obligation is a promise in a binding arrangement with a purchaser [...]" For the purposes of ED 71 it is clear that the reporting entity serves as the counterparty in the binding arrangement. However, for the purposes of ED 72 there is a need to clarify who is the counterparty, for example as follows: "A performance obligation is a promise in a binding arrangement between a transfer provider and ~~with~~ a purchaser [...]."

It might also be helpful to clarify in the basis for conclusions why IPSASB decided to introduce the concept "transfer provider" instead of retaining the concept "transferor" as used in IPSAS 23 and explaining the difference, if any, between the two concepts.

Specific Matter for Comment 3:

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?

IO disagrees with the proposal that a transaction should always be accounted for as a transfer expense without performance obligations, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement. There may be cases in practice where monitoring alone should not be decisive. IO therefore proposes a rebuttal presumption: "It is a rebuttable presumption that the transaction will be characterized by the transfer provider as a transfer expense without performance obligations, unless the transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement. Where that presumption is rebutted the transaction is accounted for as a transfer expense with performance obligations."

Specific Matter for Comment 4:

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?

IO agrees with the recognition and measurement requirements for transfer expenses with performance obligations.

Specific Matter for Comment 5:

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.

IO does not consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations.

Specific Matter for Comment 6:

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?

IO agrees with the recognition and measurement requirements for transfer expenses without performance obligations.

Specific Matter for Comment 7:

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?

IO disagrees with this lack of symmetry. Transactions between the transfer provider and the transfer recipient can occur within the same economic entity or between different levels of government not under common control. The different approaches in revenue and expense recognition would create asymmetrical information in public sector financial reporting when entities do not publish consolidated financial statements and users have to rely on the separate financial statements of individual entities for accountability and decision-making purposes. If consolidated financial statements are prepared complex consolidation adjustment might be needed to arrive at uniform accounting policies. IO therefore suggests that IPSASB maintains compatibility between transfer provider and transfer recipient accounting approaches.

Specific Matter for Comment 8:

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?

IO agrees with the proposal that the transfer provider may consider an arrangement binding even if the arrangement is still subject to appropriation. According to ED 72, paragraph AG99 the transfer provider considers substance over form in determining whether it has a present obligation to transfer the resources prior to the appropriation being authorized.

IO agrees with the proposal to apply substance over form as IPSASB's conceptual framework acknowledges that substance over form is a key quality that information included in financial statements must possess. It is embedded in the notion of faithful representation.

IO agrees with example 35 about an agreement for transfers subject to approval of appropriations.

Specific Matter for Comment 9:

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?

IO agrees with the proposed disclosure requirements in ED 72. IO has not identified any additional disclosure requirements that should be included. IO does not consider any of the proposed disclosure requirements unnecessary.