



**MINISTÈRE  
DE L'ÉCONOMIE  
DES FINANCES  
ET DE LA RELANCE**

*Liberté  
Égalité  
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**Le Président**

**Conseil de normalisation  
des comptes publics**

Paris, October 20, 2020

Mr Ross Smith  
Technical director  
International Public Sector Accounting  
Standards Board  
International Federation of Accountants  
277 Wellington Street, 4th floor  
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Ontario M5V 3H2 CANADA

**Re: Response to Exposure Draft 70, *Revenue with Performance Obligations***

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNOCP) welcomes the opportunity to comment on the Exposure Draft 70, *Revenue with Performance Obligations* published in February 2020 (ED70).

As an overall comment, and putting aside the practical difficulty of implementation, we would like to commend the IPSAS Board for issuing the three EDs at the same time, allowing constituents to review the whole package at once, and increasing consistency in the comments.

While we are conscious of the fact that at the ED stage the Board no longer seeks feedback on the overall approach retained, we would like to take this opportunity to recall the comments we made on the CP in January 2018. We were indeed concerned at the time that IFRS 15 having been only recently implemented in the private sector, it made it difficult to assess the impact and efficiency of its adaptation to the public sector. We would then suggest that alignment projects with IFRS new standards should be brought to the Board's agenda only after some time to allow for various adjustments to those new standards and a broader timeline for useful feedback with a view to implement the resulting new approaches and requirements.

We would also recommend that some wording should be added to explain in what the new approach based on identifying performance obligations is bound to provide better quality financial information than the previous approach based on assessing risks and rewards. Based on the model of IFRS new standards, an introductory section could usefully be included upfront the standard that would basically retain the wording in BC3, more specifically:

BC3 [...] The IPSASB noted that the majority of respondents supported a classification approach based on whether the revenue transaction has performance obligations. In addition, respondents noted, and the IPSASB agreed, that the concepts of restrictions or conditions in the exchange/non-exchange approach in IPSAS 23 was difficult to apply in practice. [...] the IPSASB decided to move away from the exchange/non exchange distinction and decided to develop accounting approaches based on whether the transaction is with or without performance obligations.

Additionally, we believe that it would be fair to note in the introductory section of the future standard that ED70 types of transactions most often do not represent the vast majority of the transactions in the public sector, in volume as well as in amounts.

On a practical note, we observe that the 5-step approach is disaggregated to fit respectively the recognition (step 1 to 3) and measurement (steps 4 and 5) sections, which we find makes it difficult to follow. Perhaps a diagram that would synthetise the 5-step approach could be included and would help better figure out the approach holistically.

Finally, we note that the questions asked as part of the Specific Matters for Comments (SMC) refer to very specific and narrow issues within the project. We address each SMC in our detailed comments presented in the attached appendix.

Yours sincerely,

Michel Prada

## APPENDIX

### **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 on 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 scope is in line with the Conceptual Framework, where binding arrangement is a term used to encompass wider transactions than contractual alone transactions. It is better adapted to the context of the public sector where transactions are on a large scale not of a contractual nature, though still involving enforceable rights and obligations, as well as more than one party.

The critical issue for a workable scope is for the future standard to be clear on how a preparer can determine whether the rights and obligations arising from an arrangement are enforceable. In that sense, paragraph 8 as well as application guidance paragraphs AG7-AG24 adequately help. However, AG9 may be perceived as confusing and could further benefit from deleting “outside the legal system”. Indeed this may be perceived as undermining the compliance-to-law aspect of all transactions, all the more that an illustration of “non-contractual” as “statutory”, i.e. decided or controlled by law, is only mentioned in AG11. I would therefore suggest that paragraph AG9 should read:

AG9. For an arrangement to be enforceable through ‘equivalent means’, the presence of an enforcement mechanism ~~outside the legal system~~ is required.

### **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?*

As an overall thought, the more terms are defined, the more difficult it is to apply sound judgement; actually, definitions tend to draw dividing lines between notions that may sometimes prove artificial. Because we believe that there is no need to overload the definitions, we would agree to not define “*transfer revenue*” and “*transfer revenue with performance obligations*”. Additionally, with respect to the proposed definitions, we note that in the definition of a “*binding arrangement liability*”, there is no reference to the fact that the obligation should be a **present** obligation. This is critically inconsistent with the definition of a liability in the Conceptual Framework and that may lead to differences in the recognition point in time.

Finally, it strikes us that “customer” appears only very few times in the core text, while it is being defined. We would like to question the need for a definition as we actually find sufficient that customer is being described as a type of purchaser. Defining “customer” might get confusing, where the idea is to promote the word “purchaser” that seems to bear less commercial substance than customer, which is important in the public sector.

### ***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 note that, in accordance with the last sentence in paragraph 41 of IPSAS 23, *Revenue from Non-Exchange Transactions*, transactions with both exchange and non-exchange components were treated as a non-exchange transaction. In practice, this is a relief in the public sector. However, we understand that for transactions with components relating to both exposure drafts, paragraph AG70 states that there is a rebuttable presumption that the transaction price should be fully allocated to the performance obligations. Indeed, for the presumption to be rebutted, the terms of the binding arrangement must clearly specify that only a portion of the consideration is to be returned to the purchaser if the entity does not deliver as per the arrangement. We believe that this would entail complexity in practice, the implementation of the “with performance obligations” approach being perceived by preparers as far more demanding than the “without performance obligations” approach. If changes to the requirements are not to be envisaged, we would appreciate if the Board could provide some more explanations on the reasons why they came to that solution. BC60 could then be expanded to more specifically elaborate on why the Board decided to not follow the route of the relief initially provided in IPSAS 23 with respect to transactions with both exchange and non-exchange components.

In that sense, AG70 may be perceived as too prescriptive. Indeed, for the guidance to be widely applicable, we would rather that the sentence on how to demonstrate that the presumption is rebutted should show more flexibility through, for instance, referring to an example, rather than to an obligation that may not apply to all jurisdictions. We would therefore suggest that that sentence should be rephrased as follows, and that further illustrative examples should be provided in the IE section:

AG70. [...] ~~To demonstrate that this presumption is~~ ~~may for instance be~~ ~~rebutted, when~~ the terms of the binding arrangement ~~must~~ clearly specify that only a portion of the consideration is to be returned to the purchaser in the event the entity does not deliver the promised goods or services, as this indicates that the remaining consideration is intended to help the entity achieve its objectives.

#### ***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?*

For the sake of consistency, we agree that disclosures should be aligned with those in IFRS 15. However, strategically, what could be suggested is to review the need for all those disclosures after some time to confront the standard to current practices. Conversely, the materiality notion developed in the Conceptual Framework should help preparers identify, in their specific contexts, those of the required disclosures that are not necessary to provide high quality financial information.

#### ***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?*

We believe that the issue of price concession and compulsion to provide goods or services to parties who do not have the ability to pay is well addressed in terms of disclosure through paragraph 120. We would even further call into question that the transaction is considered a binding arrangement, as one

of the party is deemed to not comply with its rights and obligations. Because those situations might happen frequently in the public sector, we would recommend that more prominence should be given to paragraph AG29, for instance by moving the paragraph forward to the core text of the standard.

Finally, we would like to draw the Board's attention to our response to SMC 5 in ED 71. In our jurisdiction, we actually claim that for the sake of transparency receivables should be recognized for their gross carrying amount (face value), with subsequent impairment if needed at year end.