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Ian Carruthers
Chairman
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Submitted via website

1. November 2020

**Comments to IPSASB's
ED 70 "Revenue with Performance Obligations",**

Dear Mr. Carruthers,

We are pleased to respond to the IPSASB's ED 70 "*Revenue with Performance Obligations*".

We appreciate that the IPSASB issued ED 70 "*Revenue with Performance Obligations*", ED 71 "*Revenue without Performance Obligations*", and ED 72 "*Transfer Expenses*" in parallel for comment. Given their importance for public sector accounting, we encourage the IPSASB to continue working on the three Standards in parallel and to issue them simultaneously.

We have also noted that currently, principal-agent-relationships are only covered in ED 70 in the Application Guidance. Given the practical importance of principal-agent-relationships in the context of revenue without performance obligations, we suggest that the IPSASB also includes guidance or even principles in a future Standard on Revenue without Performance Obligations and the future Transfer Expenses Standard.

Should you need any further information, please do not hesitate to contact us.

Sincerely,

Thomas Müller-Marqués Berger
Partner and Global Leader of Public Sector Accounting

Ernst & Young GmbH
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Annex - detailed responses

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?

Defining the scope of the ED based on binding arrangements and the concept of performance obligations is sound, especially in the public sector, and reflects the IFRS 15-approach. In our view, the definitions of a binding arrangement and of a performance obligation (para. 7) together with the Application Guidance (AG 7-AG 12) are fulfilling their purposes. The only suggestion we have is that the 'Step 1: Identifying the Binding Arrangement' section should have a specific paragraph in the core text summarising the key guidance in AG13 to AG 24.

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?

We concur with the view that introducing new definitions relating to revenue may confuse constituents and therefore suggest to not define the terms "transfer revenue" or "transfer revenue with performance obligations". This decision corresponds to the fact that ED 72 and ED 70/71 do not mirror each other.

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 with the application guidance as it is conceptually in line with what is foreseen so far on mixed transactions in IPSAS 23 or IPSAS 32. However, we suggest to add further guidance on how to deal with the practical challenges of applying the general principles of splitting binding arrangements.

ED 70, 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?

In many cases in the public sector (especially governmental entities), revenues from performance obligations are significantly less relevant than revenues without performance obligations. Our suggestion is to require only a minimum amount of disclosures related to revenue with performance obligations (e.g. taking the disclosure requirements of IPSAS 9/11 as a starting point). However, we also acknowledge that there are alignment arguments with respect to IFRS 15. We encourage the IPSASB to split the ED disclosure requirements in two groups: Required minimum disclosures and encouraged additional disclosures.

ED 70, 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.

We agree that there is information value in disclosing in the notes to the financial statements the amounts invoiced for such binding arrangements where collection of consideration is not probable or only considered probable after accepting a price concession and agree with the proposed disclosure note in para. 120. However, we do see practical challenges in providing such information, given that some public entities may not have that information readily available. We suggest to provide further guidance how entities should best deal with such situations, one alternative could be working with the Expected Credit Loss Model to predict default, as we do for other receivables.