Ref. Ares(2020)6380276 - 05/11/2020

EUROPEAN COMMISSION
BUDGET

The Accounting Officer of the Commission

Brussels
BUDG.DDG1/RAB

Subject: Comment letter on Exposure Draft 71 'Revenue without Performance Obligations'

Dear Mr Carruthers,

I welcome the opportunity to comment on the above mentioned Exposure Draft 71 'Revenue without Performance Obligations' ('ED'). The following comments are made in my capacity as the Accounting Officer of the European Commission, and as the Accounting Officer of 22 other EU entities (see list in Annex 1).

I am responsible for, amongst other tasks, the preparation of the consolidated annual accounts of the European Union ('EU'), which comprise more than 50 European institutions, agencies and European bodies with an annual budget of more than EUR 140 billion, as well as the adoption of the accounting rules applicable by entities preparing annual accounts in the EU context (the 'EU Accounting Rules').[1]

I am pleased to provide you with my comments with the aim of improving the transparency, relevance and comparability of the financial statements across jurisdictions.

Yours sincerely,

[e-signed]

Nicole SMITH
on behalf of
Rosa ALDEA BUSQUETS

[1] For the sake of clarity, the views presented in this comment letter do not represent the views of the EU Member States, or the views of the European Public Sector Accounting Standards ('EPSAS') Team, and are without prejudice to future decisions which may be taken in the context of the EPSAS project.

Mr Ian Carruthers
Chairman
International Public Sector Accounting Standards Board (IPSASB)

Commission européenne/Europese Commissie, 1049 Bruxelles/Brussel, BELGIQUE/BELGIË - Tel. +32 22991111
Office: BRE2 13/534 - Tel. direct line +32 22950848

Maria-Rosa.Aldea-Busquets@ec.europa.eu

Enclosure:	Annex 1: List of entities supporting comment letter Annex 2: EU's response to the questions raised on the ED
c.c.:	Thomas Müller-Marqués Berger, IPSASB Consultative Advisory Group Nicole Smith, Director BUDG C, Derek Dunphy, Martin Koehler, Lars Ruberg, BUDG C2, John Verrinder, Head of Unit ESTAT C1

Annex 1 – List of entities supporting comment letter

Entities under the responsibility of the Accounting Officer of the European Commission

European Institutions
European External Action Service
European Data Protection Supervisor
European Agencies
Agency for the Cooperation of Energy Regulators (ACER)
European Union Agency for Law Enforcement Training (CEPOL)
Body of European Regulators for Electronic Communications (BEREC Office)
European Institute for Gender Equality (EIGE)
European Agency for Safety and Health at Work (EU-OSHA)
Consumers, Health, Agriculture and Food Executive Agency (CHAFEA)
European Global Navigation Satellite Systems Agency (GSA)
European Joint Undertakings
Bio-based Industries Joint Undertaking (BBI-JU)
Shift2Rail Joint Undertaking (Shift2Rail JU)
Fuel Cells and Hydrogen Joint Undertaking (FCH JU)
Single European Sky ATM Research Joint Undertaking (SESAR JU)
Innovative Medicines Initiative Joint Undertaking (IMI JU)
Electronic Components and Systems for European Leadership Joint Undertaking (ECSEL JU)
The European High Performance Computing Joint Undertaking (EuroHPC)
EU Trust Funds
EU Emergency Trust Fund for Africa (EUTF Africa)
EU Trust Fund Bêkou for the Central African Republic (EUTF Bêkou)
EU Trust Fund for Colombia (EUTF Colombia)
EU Regional Trust Fund in Response to the Syrian crisis (EUTF Madad)
Other entities
European Development Fund
European Institute of Innovation & Technology (EIT)

ANNEX 2 – EU's response to the questions raised on the ED

EXPOSURE DRAFT 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 [draft] 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 [draft] Standard?

EU's response:

We agree that a specified activity and eligible expenditure give rise to a present obligation.

As pointed out in para. 19 and para. 21 of the draft Standard, the transfer recipient is unable to avoid the outflow of resources as it is required to either use the transfer in the delivery of the specified activity/on eligible expenditure or to return the transferred resources to the transfer provider (or incur another form of redress/ penalty).

We note that para. 19 and para. 21 of ED 71 factors in the possibility of a claw-back of the transferred resources, something which is refrained from in ED 72 Transfer Expenses when analysing the existence of an asset on the side of the transfer provider. According to BC54 of ED 72 the claw-back is seen as contingent on the transfer recipient's future non-compliance with the binding arrangement or future failure to fully utilise the funds, and therefore does not constitute a resource that is presently controlled by the transfer provider.

In our opinion the claw-back should be treated consistently in ED 71 and ED 72. In other words, if the claw-back mechanism is seen as an indication for the existence of a present liability on the side of the transfer recipient, it should also be seen as an indication for the existence of an asset on the side of the transfer provider.

As we have argued in our Comment letter on ED 72 Transfer Expenses (see our reply to SMC 2), in a legal environment comprising both a well-defined and designed system of monitoring and controls as well as a claw-back mechanism, the transfer of resources gives the transfer provider the right to obtain future benefits, either in the form of service potential (as having the specified activity carried out or eligible expenses incurred meets the transfer provider's policy objectives), or in the form of economic benefits (by receiving a refund of the funds transferred).

Specific Matter for Comment 2: (Paragraph 31)

The flowchart that follows paragraph 31 of this [draft] 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?

EU's response:

We agree 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 [draft] 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?

EU's response:

We have no comments on this specific matter.

We consider the basic principle outlined in para. 57-58 of ED 71 as sufficiently clear.

In terms of wording we note that para. 57 of ED 71, which is under the heading 'Satisfying Present Obligations', currently only refers to specified activities and not to eligible expenditure. As both specified activities and eligible expenditure form part of present obligations (see para. 19 and 21 of ED 71, respectively) we would suggest to add a reference to eligible expenditure to the guidance (consistent with addressing the issue in two separate sections in the application guidance, see AG25 and AG 27).

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 [draft] 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?

EU's response:

We think that the basic principle underlying the allocation of the transaction price between different obligations is sufficiently clear.

However, considering that binding arrangements in the public sector can often contain numerous contractual obligations, we would consider it useful to provide guidance on how to apply that principle in practice. We are concerned that having to split a large number of binding agreements in individual components could have a huge business impact as it could require enormous resource commitment and significant system changes. We would therefore propose that the Standard would illustrate options for applying the principle on an aggregate of present obligations.

Given that allocating the transaction price is a fundamental step in applying the proposed concept, we would suggest adding an illustrative example.

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

Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] 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?

EU's response:

We agree with this proposal of the ED. At the same time we understand that subsequent measurement of statutory receivables would be revisited as part of the envisaged project on statutory receivables and payables.

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 [draft] 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?

EU's response:

We agree with the disclosure requirements of the ED.

Specific Matter for Comment 7:

Although much of the material in this [draft] Standard has been taken from IPSAS 23, Revenue from NonExchange 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?

EU's response:

Please refer to our reply to SMC 7 in our Comment letter on ED 72 Transfer Expenses.

We agree with the approach taken in ED 71 and that the structure and broad principles and guidance are logically set out. We also agree that the way these broad principles and guidance have been set out in ED 71 should be consistent with that of ED 72 Transfer Expenses. However, for the reasons laid out in our Comment letter on ED 72, we do not think the principles are consistently applied, resulting in an asymmetric approach between ED 71 and ED 72 (i.e. the present obligation on the side of the transfer recipient has no counterpart asset on the side of the transfer provider).