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Ross Smith
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ONTARIO
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Dear Mr. Smith:

SUBJECT: Exposure Draft (ED) 70: *Revenue with Performance
Obligations*

Thank you for the opportunity to comment on the Exposure Draft (ED) 70: *Revenue with Performance Obligations* issued in February 2020.

The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). The Government of Canada is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS are regarded as an important secondary source of generally accepted accounting principles.

Our responses to the specific matters for comment on ED 70 are included in the attached appendix.

We thank you again for providing the opportunity to comment on this Exposure Draft. If you require further information, please do not hesitate to contact either Blair Kennedy at blair.kennedy@tbs-sct.gc.ca (613-404-2996) or myself at diane.peressini@tbs-sct.gc.ca (613-369-3107).

Yours sincerely,

Diane Peressini
Executive Director,
Government Accounting Policy and Reporting

c.c.: Roch Huppé, Comptroller General of Canada
 Roger Ermuth, Assistant Comptroller General, Financial Management

APPENDIX

Responses to Specific Matters for Comment

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?

Response:

We partially agree. We believe that the following should be addressed:

- We suggest that the scope of the Exposure Draft (ED) would be clarified by stating directly in the definition of a binding arrangement that “enforceability” is through legal or equivalent means, consistent with the discussion on legally binding obligations in Chapter 5 of the *Conceptual Framework*.
- The definition of a third-party beneficiary refers to the receipt of “goods, services or other assets”. However, ED 70 transactions encompass only those that provide goods or services. There is no further description of “other assets”, therefore, there is a lack of clarity as to the scope of transactions included.

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??

Response:

We agree with the approach taken in ED 70. An entity accounts under ED 70 for revenue received when the performance obligation is to transfer the goods or services either to the purchaser or a third party. Mixing the concepts of “transfers”, which are non-exchange transactions, with the performance obligation approach does not provide any additional clarity. Consequently, we believe these definitions are unnecessary for the application of this standard.

However, we have provided comments in response to ED 72 with respect to the use of the term “transfer recipient”, when the counterparty records revenue with performance obligations (i.e. transactions in the scope of ED 70). We believe that ED 72 should be amended to reflect that this party is a supplier of goods or services, rather than a transfer recipient.

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?

Response:

We agree with the application guidance in AG69 and AG70.

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?

Response:

We are concerned about the extent of the disclosures proposed given the resulting complexity in record keeping and reporting. Although the proposed disclosures are based on those in IFRS 15, the IPSASB may want to consider whether public sector disclosures should be less than those in the private sector given the extent

of other types of reporting by governments outside of financial statements. Extensive disclosure requirements can significantly expand the financial statements with too much detailed information, thereby impairing their understandability and obscuring the most relevant 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?

Response:

We agree with this disclosure requirement. It is important for financial statements users to understand the extent of price concessions that result from transactions compelled by legislation or government policy decisions. However, it may be difficult for entities to distinguish between implicit price concessions and impairment losses. We believe that it is worth emphasizing that price concessions are determined at initiation of the agreement with a purchaser and establish the transaction price, whereas impairment losses arise on subsequent measurement when it is assessed that the purchaser will no longer be able to pay the established transaction price.