



KOREA INSTITUTE OF PUBLIC FINANCE
Government Accounting and Finance Statistics Center

IPSASB Exposure Drafts

Transfer Expenses and Revenue

Comments on the Exposure Draft 70, Revenue with Performance Obligations

October 30, 2020

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Ross Smith
Program and Technical Director
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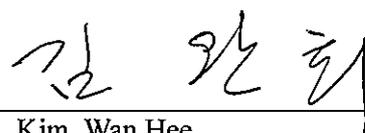
**Re: The comments on the Exposure Draft 70,
*Revenue with Performance Obligations***

Dear Mr. Smith,

The Government Accounting and Finance Statistics Center (hereinafter referred to as the “GAFSC”) at Korea Institute of Public Finance would like to express our sincere gratitude for the opportunity to response to Exposure Draft 70, Revenue with Performance Obligations issued by the International Public Sector Accounting Standards Board.

The comments have been prepared and reviewed by the staff and the Government Accounting Advisory Committee of the GAFSC, and are available in the following pages. Please feel free to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staff of the GAFSC, Grace Choi (gracechoi@kipf.re.kr).

Sincerely,



Kim, Wan Hee
Chief Director of GAFSC at KIPF

[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 with 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?

[GAFSC Comments]

We agree that the proposed scope of the ED 70 is clear. The scope has been aptly settled based on the definition of binding arrangement in paragraph 7 and the definition appropriately encompasses the key characteristics of the binding arrangement which is addressed in paragraph 9, AG16 and AG19.

Yet, due to the stated reasons below, there seems to be a need for refinement in a paragraph or Application Guidance regarding the characteristics of binding arrangement.

First, if the enforceability of the binding arrangement is given by the 'equivalent means', further explanation should be included in the Application Guidance on which enforcement mechanism allows the right to promised consideration become enforceable from the entity(seller)'s perspective. Paragraph 7 and 9, as well as, AG13 highlight the ability to enforce the rights and obligations

conferred to ‘both parties’ in the arrangement as the definition and the key characteristics of the binding arrangement. Moreover, to include the transactions of the public sector entities without the power to enter into legal contract into the scope of ED 70, IPSASB specified that they developed the binding arrangement based on the concept of contract in IFRS 15(AG8 and AG16). However, AG19-AG24 solely focus on the enforceability of the right to promised goods or services of the purchaser, and fail to address how the entity(seller) can make its right to promised consideration enforceable through which enforcement mechanism, when the binding arrangement becomes enforceable through the ‘equivalent means’ other than legal means.

Second, the difference between binding arrangement and contract needs to be addressed, because there is a need for clearer explanation on the reason why contract is included in the binding arrangement.

ED 70 describes a contract as “a type of binding arrangement(paragraph 7)” and “the binding arrangement may arise from legal contracts(AG11).” In this regard, it can be inferred that a contract is an arrangement enforceable by legal means, and a binding arrangement is enforceable by other equivalent means(alternative processes) together with legal means. If IPSASB clearly states this aspect in the Application Guidance, it could help enhance the information users’ understanding of the relationship between binding arrangement and contract.

Lastly, there is a need for IPSASB to specify in paragraphs or Application Guidance whether laws and regulations can be considered as a type of binding arrangement. This could help the users to determine whether the legal obligation to transfer goods or services to the purchaser or the third-party beneficiary meets the definition of the performance obligation arise from binding arrangement. With that, it can further enable the Standard users to apply the new revenue recognition system based on performance obligation to the current non-exchange transaction, transferring goods or services with compensation of lower value, as prescribed by law.

[Additional Comments]

IPSASB needs to consider using ‘arrangement’ instead of ‘binding arrangement.’

The term ‘binding arrangement’ is repeatedly used not only in ED 70 but throughout ED 71 and 72.^{*1} In ED 70, ‘binding arrangement’ is defined as “an arrangement that confers both enforceable rights and obligations on both parties to the arrangement” and in this regard, the meanings of ‘enforceable’ and ‘binding’ does not seem to be much different from each other according to the dictionary.^{*2} Therefore, if it does not contradict with the other IPSAS literatures then replacing ‘binding arrangement’ with ‘arrangement’ could help reduce the confusion that could be caused by using the two words with similar meanings, and enhance readability of the standard.

*1. ‘binding arrangement’ appears 948 times in ED 70, 179 times in ED 71, and 764 times in ED 72.

*2. The comparison of the meanings of ‘binding’ and ‘enforce’ from the dictionary is as follows:

Binding	Enforce
(ADJECTIVE) A binding promise, agreement, or decision must be obeyed or carried out.	1. (VERB) If people in authority enforce a law or a rule, they make sure that it is obeyed, usually by punishing people who do not obey it.
	2. (VERB) To enforce something means to force or cause it to be done or to happen.

* Source: Collins English Dictionary(www.collinsdictionary.com)

[Specific Matter for Comment 2]

This Exposure Draft has been developed along with [draft] IPSAS [x] (ED71), 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?

[GAFSC Comments]

Agree with the decision of IPSASB in principle.

It is possible that the terms, ‘transfer revenue’ and ‘transfer revenue with performance obligations’, could be helpful to explain the type of the concept for the revenue of public sector entities, but since these are not necessary when applying the principles for recognition and measurement of revenue according to ED 70 and ED 71, the decision of IPSASB not to include the separate definition of these terms is agreeable.

Nonetheless, there is a need to improve by reflecting the following through either Illustrative

Examples or Basis for Conclusions.

First, relevant Illustrative Examples should be improved to clearly illustrate that the accounting for revenue transactions with performance obligations has nothing to do with whether the revenue is a transfer revenue. It is advisable that IPSASB may develop Illustrative Examples in which the background of transactions of revenue transactions with performance obligations has the characteristics of transfer revenue or include descriptions to the existing example(Example 38) stating that the revenue is transfer revenue.

Second, with the absence of the definition of ‘transfer revenue’, the guideline users might not be able to intuitively understand the fact that ED 71 addresses the ‘transfer’ transaction and the reason behind the public sector entities and its counterpart being called as ‘transfer recipient’ and ‘transfer provider’ respectively.* Hereupon, if IPSASB include the explanation why the transactions within the scope of ED 71 is ‘transfer’ in the BC, it will be helpful to enhance the understanding of users on the relationship among EDs 70-72.

* In fact, during the meeting held to discuss this Exposure Draft, the Government Accounting Advisory Committee of GAFSC, raised the question of the reasons for indicating the entity within the scope of ED 71 as transfer recipient and its counterpart as transfer provider.

[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-AG70.

Do you agree with the application guidance? If not, why not?

[GAFSC Comments]

Do not agree with the current Application Guidance and the paragraphs AG69 and AG70 need to be revised as follows:

First, the way the Standards(ED 70-71) present paragraph 9(ED 71) and AG69-AG70(ED 70) should be improved.

The paragraph 9(ED 71) states that “where it is not possible to distinguish between the components with performance obligations and the components without performance obligations, the transaction is accounted for in accordance with ED 70. ED 70 paragraphs AG69–AG70 provide additional guidance”. However, ED 70, through AG69-AG70*, addresses the transaction whose transaction price is not wholly related to the transfer of goods or services. In case of a user applying ED 70 for not being able to distinguish the components without performance obligations, it is still not possible to apply AG69-AG70(ED 70) requiring to disaggregate transaction price and allocate them into the

performance obligations. Therefore, AG69-AG70 should particularly set the case in which unable to distinguish the components without performance obligations to avoid the possibility of resulting in circular logic.

* It is noticeable that the subtitle of paragraphs AG69-AG70 is <Transactions with Components within the Scope of [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations>.

Second, when the components with performance obligations cannot be distinguished, AG69 or AG70 of ED 70 should clearly state that the transaction price that should be allocated into performance obligations need not be disaggregated. Currently AG69 or AG70 of ED 70 has the presumption that the transaction price is wholly related to the transfer of goods or services and since it only deals with the case of the presumption becoming rebuttable, it hinders the fact that the entire transaction price should be allocated to performance obligation when the transaction price is not distinguishable due to undistinguishable components of revenues without performance obligations.

[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?

[GAFSC Comments] No comment.

[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 transaction 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?

[GAFSC Comments] No comment.