

Office No. MEF-FOCAL-2020-0001

Quito, October 30, 2020

**Subject:** Submission of annexes 1 and 2 with the comments of FOCAL member countries to the IPSASB Exposure Drafts 70, 71 and 72

Mr.

Ian Carruthers

**CHAIRMAN OF THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING  
STANDARDS BOARD IPSASB**

Dear Mr. Carruthers:

In the months of May and June 2020, FOCAL in coordination with Ernst & Young and International Public Sector Accounting Standards Board IPSASB, conducted three videoconferences on Exposure Drafts 70 Revenue with Performance Obligations, 71 Revenue without performance obligations and 72 Transfer Expenses, where it was highlighted that each exposure draft included specific matters for comment on which the IPSASB is looking for country opinions.

Therefore, the Forum of Governmental Accounting of Latin America - FOCAL - is delivering a consolidated document containing responses to comments from 11 countries: Colombia, El Salvador, Ecuador, Brazil, Paraguay, Honduras, Peru, Mexico, Guatemala, Chile and Costa Rica. FOCAL's objective is to strengthen the joint work with the International standard-setting Body and to contribute with the experience of each country for the application of the Public Sector Accounting.

Yours sincerely,



Firmado electrónicamente por:  
MAGDALENA DEL  
PILAR VICUNA  
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Magdalena Vicuña Cevallos  
Ecuador's Sub-secretary of Government Accounting  
Ministry of Economy and Finance of Ecuador  
FOCAL President

**Annexes:**

- Annex No. 1\_Comments to Draft IPSASB Standards\_FOCAL consolidated 29-10-2020
- Annex No. 2 Additional comments Standards 70\_71\_72 IPSASB Mexico

cc. FOCAL Countries

**Exposure Drafts: 70 Revenue with Performance Obligations;  
71 Revenue without Performance Obligations  
and 72 Transfer Expenses.**

Mexico City, September 2020

With respect to Exposure Drafts 70 Revenue with Performance Obligations, 71 Revenue without Performance Obligations and 72 Transfer Expenses; issued by the International Public Sector Accounting Standards Board (IPSASB), the Government Accounting Unit of the Government of Mexico issues general and specific comments on their content.

**GENERAL COMMENTS**

The draft Standard 70 includes the term "Performance Obligations" which translates into the official presentation of IPSASB as "Obligation de Performance".

In this regard, the Mexican Council for Research and Development of Financial Reporting Standards (CINIF) in Mexico has issued the following statement:

*"Obligation de compliance" is the term most commonly used in the FRS survey, which is a translation of the English term "performance obligation", which is translated into Spanish in the IASB's official translation as "obligation de performance". We reject the official translation as incorrect in our environment, and use "Obligation de compliance". However, we received suggestions for several alternative translations, and after much reflection at CINIF, we finally decided to use the term "obligation a comply".*

This accounting authority coincides with the CINIF pronouncement, so it is recommended to consider this translation in the official Spanish translations of the IPSASB.

**SPECIFIC COMMENTS**

**IMPORTANT NOTE:** The texts referred to in the column "PARAGRAPH", correspond to a general translation, and therefore do not imply a specialized translation of the documents of the Draft Standards, mainly in terms of technical terms.

**Draft Standard 70**

PARAGRAPH	COMMENTS
<p><i>Acknowledgement</i></p> <p>Identification of the binding agreement (step 1)</p>	<p>It is suggested to review the relevance of <b>oral</b> or <b>verbal</b> terms, since in the case of Mexico, acquisitions, leases, service provision and contracts carried out by the public sector should:</p>

<p>9...</p> <p><b>Binding agreements</b> may be written, <b>oral</b> or implied according to the usual practices of an entity. The practices and processes for establishing binding agreements with buyers vary by jurisdiction, sector and legal entity. In addition, they may vary within an entity (for example, they may depend on the type of buyer or the nature of the goods or services promised).</p>	<p>1. Be carried out by means of a public award or tender through a public call, in order to ensure the best conditions to administer public resources efficiently, effectively, economically and transparently.</p> <p>2. The formalization for the exercise of public resources must be in writing, through the signing of agreements or contracts, where the rights and obligations of the parties and the mechanisms to enforce the commitments established in a binding arrangement are expressly established.</p>
<p>Step 5: Meeting performance obligations</p> <p>30. An entity <b>shall recognize revenue when the entity meets a performance obligation by transferring a promised good or service</b> (i.e., an asset) to a buyer or third party beneficiary. An asset is transferred when the buyer or third party beneficiary obtains control of that asset.</p>	<p>Mexico's legal framework recognizes revenue from the sale of goods and the rendering of services at the time the resources are received or when the tax receipt is issued. Therefore, it can be seen that this recognition is for the purpose of complying with accounting regulations and tax legislation, among others. This is in contrast to the provisions of the draft standard, which seeks to recognize revenue as a liability and until the performance obligation is satisfied, revenue is recognized.</p>
<p>Measurement</p> <p>45. <b>When (or as) a performance obligation is satisfied, an entity recognizes as revenue the amount of the transaction price</b> (which excludes estimates of variable consideration that are restricted in accordance with paragraphs 55-57) that is allocated to that performance obligation.</p>	<p>Therefore, it is requested to consider within the criteria of the Standard, that the registration or recognition of the revenue is made once the tax receipt is issued.</p>

**Draft Standard 71**

<p><b>Present Obligations</b></p> <p>16. <b>A present obligation gives rise to a liability because the past event occurs when the transfer provider and the transferee enter into a binding agreement that creates rights and obligations enforceable by both parties.</b> Furthermore, such an agreement leads to an outflow of</p>	<p>Mexico's legal framework recognizes the revenue from transfers between different orders of government, at the time the resources are received. This is in contrast to the provisions of the exposure draft, which seeks to recognize revenue as a liability.</p> <p>On the other hand, it is mentioned that exposure drafts 71 and 72 indicate that income is recognized in accordance with compliance with the present obligation and the transfer</p>
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resources because the transferee cannot avoid using those resources to comply with the requirements of the binding agreement or in case of breach of a binding agreement, reimburse the resources to the transferor or incur some other form of penalty.

**Transfers with present obligations**

*Recognition of liabilities*

45. When a transferee recognizes an asset for an inflow of resources, it will consider whether there are present obligations related to the inflow that result in the **recognition of a liability**.

46. A present obligation arising from a transaction without a performance obligation that meets the definition of a liability shall **be recognized as a liability** when, and only when:

**Revenue recognition**

53. When an inflow of resources arises from a transaction with no performance obligations, but with present obligations, it is recognized as an asset, revenue is also **recognized**, except to the extent that **a liability is recognized for any unmet present obligation with respect to the** same inflow.

expense is recognized at the time the resources are transferred, an asymmetric inconsistency is observed during the course of a fiscal year.

**Illustrative example of asymmetry**

Journal entry to account for receipt of income without performance obligations, but with present obligations:

1. Recognition of the expense by the transfer provider (Federation)

	Debit	Credit
<b>General expenses (Transfers, Assignments, Grants and Other Assistance)</b>	xxx	
Banks		xxxx

2. Recognition of revenue with present obligation by the transferee

	Debit	Credit
Banks	xxx	
<b>Liability with present obligation</b>		xxxx

3. Recognition of revenue as obligations are met

	Debit	Credit
Liability with present obligation	xxx	
Revenue		xxxx

It is therefore suggested that such revenues between governments and sub-governments be recorded at the time the resource is delivered and received and when the present obligation has not been met.

Given the conditions of the Draft Standard regarding the accounting management of "Transfers" and considering the characteristics on which operations are carried out in Mexico for the delivery of resources by the Federal Government to sub-national governments (Federal Entities) in the form of "Transfers", it is mentioned that the integral application of the Standard is not possible, due to the structure of the Mexican Public Sector, its administrative classification and the legal and normative dispositions that regulate it, conditioned primarily by the principle of annuality, as well as by the sovereignty and autonomy of the Federal Entities and the Municipalities (subnational governments).

**Draft Standard 72**

<p><i>Acknowledgement</i></p> <p><i>Identification of the binding arrangement (step 1)</i></p> <p><b>13. A transfer provider shall account for a transfer expense that imposes performance obligations to provide goods or services to a third-party beneficiary to the transfer recipient in accordance with the Public Sector Performance Obligation Approach</b> in this [draft] Standard only when all of the following criteria are met:</p> <p>(a) The parties to the binding agreement have approved the binding agreement (in writing, <b>orally, or in accordance</b> with other customary practice) and agree to comply with their respective obligations</p>	<p>The Federal Government of Mexico (transfer provider) would be unable to monitor when the performance obligation of sub-national governments is met, and these in turn would have to be met by another level of government.</p> <p>In Mexico there are three orders of government (federal, state and municipal) where each one has autonomy to exercise resources and must adhere to the annual closings of the exercise. On the other hand, there is an oversight body that has the power to monitor the use of public resources, in order to prevent irregular practices and contribute to good governance, including verification of the application of resources and compliance with contracts.</p> <p>It is suggested that the relevance of <b>oral</b> or <b>verbal</b> terms be reviewed, since in the case of Mexico, acquisitions, leases, service provision and contracts carried out by the public sector should:</p> <ol style="list-style-type: none"> <li>1. Be carried out by means of a public award or tender through a public call, in order to ensure the best conditions to administer public resources efficiently, effectively, economically and transparently.</li> <li>2. The formalization for the exercise of public resources must be in writing, through the signing of agreements or contracts, where the rights and obligations of the parties and the mechanisms to enforce the commitments established in a binding agreement are expressly established.</li> </ol>
<p><i>Meeting performance obligations (step 5)</i></p> <p><b>33. A transfer provider will recognize an expense when the transferee satisfies a performance obligation by transferring a promised good or service</b> (i.e., an asset) to a third party beneficiary. An asset is transferred when the third party beneficiary gains control of that asset. A transferor may determine the point at which the third party beneficiary obtains control of the asset by</p>	<p>The Federal Government of Mexico (transfer provider) would be unable to monitor when the performance obligation of sub-national governments is met, and these in turn would have to be met by another level of government.</p> <p>In Mexico, there are three orders of government (federal, state and municipal) where each one has autonomy to exercise resources and must adhere to the annual closings of the exercise. On the other hand, there is an oversight body that has the power to monitor the use of public resources, in order to prevent irregular practices and contribute to good</p>

<p>reference to the transferee losing control of that asset.</p>	<p>governance, including verification of the application of resources and compliance with contracts.</p>																											
<p>Measurement</p> <p>47. <b>When (or as) a transfer recipient satisfies a performance obligation, a transfer provider shall recognize as an expense the amount of the transaction consideration</b> (which excludes estimates of variable consideration that are restricted in accordance with paragraphs 56-58) that is allocated to that performance obligation.</p>																												
<p><b>Recognition</b></p> <p>91. A transfer provider <b>will recognize a transfer expense without performance obligations on the first of the following dates:</b></p> <p>(a) When the transferor provider <b>has a present obligation to transfer resources to a transferee</b>. In such cases, the transfer provider shall recognize a liability that represents its obligation to transfer the resources; and</p> <p>(b) When the transferor <b>no longer controls the resources</b>; this is usually the date when it <b>transfers the resources to the transferee</b>. In such cases, the transfer provider terminates the resources it no longer controls in accordance with other Standards.</p>	<p>Derived from the interrelationship of ED 71 and 72, which indicate that revenue is recognized in accordance with compliance with the present obligation and the transfer expense is recognized at the time the resources are transferred, an asymmetric inconsistency is observed over the course of a fiscal year.</p> <p><b>Illustrative example of asymmetry</b></p> <p>Journal entry to account for receipt of income without performance obligations, but with obligations present:</p> <p>1. Recognition of the expense by the transfer provider (Federation)</p> <table border="1" data-bbox="748 1188 1382 1331"> <thead> <tr> <th></th> <th>Debit</th> <th>Credit</th> </tr> </thead> <tbody> <tr> <td><b>General expenses (Transfers, Assignments, Grants and Other Assistance)</b></td> <td>xxx</td> <td></td> </tr> <tr> <td>Banks</td> <td></td> <td>xxxx</td> </tr> </tbody> </table> <p>2. Recognition of income with current obligation by the transferee</p> <table border="1" data-bbox="748 1402 1382 1482"> <thead> <tr> <th></th> <th>Debit</th> <th>Credit</th> </tr> </thead> <tbody> <tr> <td>Banks</td> <td>xxx</td> <td></td> </tr> <tr> <td><b>Liability with present obligation</b></td> <td></td> <td>xxxx</td> </tr> </tbody> </table> <p>3. Recognition of revenue as obligations are met</p> <table border="1" data-bbox="748 1554 1382 1633"> <thead> <tr> <th></th> <th>Debit</th> <th>Credit</th> </tr> </thead> <tbody> <tr> <td>Liability with current obligation</td> <td>xxx</td> <td></td> </tr> <tr> <td>Income</td> <td></td> <td>xxxx</td> </tr> </tbody> </table> <p>It is therefore suggested that such revenues between governments and sub-governments be recorded at the time the resource is delivered and received and when the current obligation has not been met.</p>		Debit	Credit	<b>General expenses (Transfers, Assignments, Grants and Other Assistance)</b>	xxx		Banks		xxxx		Debit	Credit	Banks	xxx		<b>Liability with present obligation</b>		xxxx		Debit	Credit	Liability with current obligation	xxx		Income		xxxx
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## COMMENTS ON ILLUSTRATIVE EXAMPLES

While it is true that the examples accompanying the Draft Standards are not part of them and are intended only to illustrate normative aspects, without providing interpretative guidance, it is important to mention the following:

- Because the Draft Standards are so broad in accounting matters, they must be accompanied by examples that allow for correct interpretation, i.e., the examples given must be of an interpretative nature.
- It is considered important that the examples provided in each Draft Standard are within the scope of the corresponding Project and that they are the examples considered necessary, so that the content and application of each Draft Standard can be clarified. This is because the examples provided in Draft Standard 70 refer, in their interpretation and application, to Draft Standard 71, which creates confusion because they do not illustrate the specific cases of the respective standard.
- The examples should be about real cases, since it is observed that some of the cases exposed are not attached to real circumstances and others are left with a partial pronouncement on the Standard.

In this sense, comments are sent on some examples in order to show what has been pointed out in the previous paragraphs.

### Examples: ED 70

<p><b>Example 2: transactions arising from a binding arrangement without performance obligations</b></p>	<p>The example does not reflect a real situation, since it does not show the objective that a government seeks, about the transfer of a good or service that benefits the population.</p> <p>On the other hand, the cited example corresponds to draft standard 70 and later indicates that since there is no performance obligation (since there is no transfer of a good or service from the research laboratory to the local government or any other third party) it would be within the scope of draft standard 71 creating confusion to identify to which draft standard it corresponds and its accounting record.</p>
<p><b>Example 4: enforceability through a mechanism other than legal means</b></p>	<p>Mexico's regulatory framework does not allow for this type of agreement, and all contracts must be within a framework of legality and enforceability.</p> <p>The example is confusing and not perceived as a real case, so it is suggested that its scope should be limited to specific circumstances.</p> <p>Likewise, it is considered risky to leave informal mechanisms (outside the Law) in an International</p>

	<p>Standard, which also does not indicate compliance with budgetary mechanisms, which can privilege the informality of agreements and the inadequate use of public resources.</p> <p>It is suggested that if this type of arrangement (oral or verbal) is intended to be left within the Standard, the following should be considered:</p> <ul style="list-style-type: none"> <li>• That in the event that this type of arrangement exists, it must be contemplated within the government's regulations, that is, no illegal means must be considered in the regulation and that the regulation can or intends to regularize them.</li> <li>• That this type of agreement be treated as an exception to the rule.</li> </ul>
<p><b>Example 5: Collectability of the consideration</b></p>	<p>The example is inconclusive, since it only mentions the recognition of income for 5,000 CU. (consideration), however, it is suggested to consider the following aspects:</p> <ul style="list-style-type: none"> <li>- Clarify whether the example corresponds to Draft Standard 70, 71 or both.</li> <li>- Point out how the market price is initially recognized for 400,000 CU.</li> <li>- Indicate how to recognize the 150,000 cU. that the resident had already paid.</li> <li>- What is the treatment for the difference of 250,000 CU. with the 180,000 CU.</li> <li>- How it reaches 180,000 CU. and how it registers.</li> <li>- How to record the accounting moments in which the movements take place.</li> </ul>
<p><b>Example 6 - The consideration is not the declared price - Implicit price concession</b></p>	<p>The example does not correspond to reality.</p> <p>In the case of Mexico, if there is a regulated price, it cannot be modified without generating a damage to public resources, so the consideration cannot be allowed to be less than the agreed one.</p>

	<p>When formalizing an arrangement, it is required to have the documentary support in order to be able to evaluate the fulfillment of the contracted obligations. Likewise, a budget to contract agreements was previously evaluated and committed.</p>
<p><b>Example 9: Modification of a binding agreement for goods</b></p> <p><b>Case A:</b> Additional products for a price that reflects the independent price</p> <p><b>Case B:</b> Additional products for a price that does not reflect the independent price</p>	<p>Although the objective of the example is to reflect the moment when the binding arrangement is modified, the exercise is incomplete as it does not indicate:</p> <p>Case A:</p> <ul style="list-style-type: none"> <li>- The accounting record by the time the entry is recognized.</li> <li>- Despite the fact that the Draft Standard indicates in numeral 26 the criteria for considering a different asset, it is confusing when it mentions in the first paragraph of case A that 1.5 identical textbooks were acquired.</li> </ul> <p>Case B:</p> <ul style="list-style-type: none"> <li>- The accounting record by the time of recognition of the arrangement.</li> <li>- When handling an amount as a combined price and in order to be able to clarify the example, it is suggested that the record be reflected by the initial recognition of the agreement and by the modifications.</li> </ul> <p>Therefore, the above example is confusing to clarify the correct application of Standard 70.</p>

**Examples: Draft Standard 71**

<p><b>Example 1 - Scope (paragraphs 3 to 9)</b></p> <p><b>Case A, Case B</b> Revenue with performance obligations (Delivery of goods to buyer)</p> <p><b>Y Case C</b> Income with performance obligations (Delivery of goods to third party beneficiaries).</p>	<p>The example is confusing because:</p> <ul style="list-style-type: none"> <li>• For case A, there is no mention of whether there is a present obligation to determine when revenue is recognized.</li> <li>• Case B and Case C do not correspond to ED 71 under analysis, since they refer to accounting on the basis of ED 70, i.e., in this</li> </ul>
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	<p>example EDs 70 and 71 are mixed, which is not clear for interpretation.</p> <ul style="list-style-type: none"> <li>In case C, it is mentioned that it does not comply with the basic postulate of "<i>Consistency</i>" which indicates that "in the presence of similar transactions in a public entity, the same accounting treatment must be applied".</li> </ul>
<p><b>Example 4: Value Added Tax (paragraph 94) 1</b></p>	<p>It is suggested to exemplify when it is the recognition of income and add the accounting records of the time of accrual and collection.</p>

**Example: Draft Standard 72**

<p><b>Example 1 Transaction where the other party provides goods and services</b></p> <p><b>Case A: the vehicle is provided to the international organization</b></p> <p><b>Case B: the vehicle is delivered to a national government</b></p>	<p>It is suggested that the five-step model for expense recognition be developed, as recognized by the national government and if there is a relationship of applicability between EDs 70, 71 and 72. In addition, it should be exemplified:</p> <ul style="list-style-type: none"> <li>The International Organization's accounting applications (for the first year and subsequent years).</li> <li>National government applications (for the first year and subsequent years).</li> </ul>
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