

October 29, 2020

International Public Sector Accounting Standards Board (IPSASB)
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: Draft Response to Exposure Draft 70, *Revenue with Performance Obligations*

Thank you for the opportunity to provide input on a future International Public Sector Accounting Standard on revenue with performance obligations.

Overall, PSAB staff are supportive of the proposals in [draft] IPSAS (ED 70), *Revenue with Performance Obligations*. The comments set out in this letter and document represent the views of PSAB staff, not those of the Public Sector Accounting Board (PSAB). PSAB staff agree:

- That overall, the scope is generally clear (SMC 1), but we suggest some minor wording changes to make the scope clearer.
- That the paragraphs AG69 and AG70 in Application Guidance (SMC 3) are clear and understandable.
- With the IPSASB decision that the Exposure Draft and new standard should include the disclosure requirements that were in IFRS 15 (SMC 4).
- With the IPSASB decision to include disclosure requirements for entities that are compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay (SMC 5).

PSAB staff are concerned with the decision not to define “transfer revenue” or “transfer revenue with performance obligations” (SMC 2). PSAB staff feel that these definitions, as outlined in paragraph BC20 (a) and (b) mirror the definition of “Transfer Expense” included in ED 72 and should therefore be included. PSAB staff do not feel that introducing new definitions related to revenue would be confusing to constituents and do not feel that it adds any level of complexity.

Finally, we have also included some other matters for IPSASB to consider at the end of this document. While not directly asked by IPSASB, PSAB staff feel that consideration of these points could contribute to a better final standard.

We hope that you find the comments helpful.

Kind regards,

Thaksa Sethukavalan
Principal
Public Sector Accounting Standards

tsethukavalan@psabcanada.ca

RESPONSES TO SPECIFIC MATTERS FOR COMMENT

Specific Matter for Comment 1: (Paragraphs 3 to 7)

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?

PSAB Staff Response

Agree that, for purposes of this Standard, the scope is generally clear. However, PSAB staff has some minor suggestions to make the scope of the Exposure Draft clearer to readers:

- The first sentence of Paragraph 3 is long and may need to be read a few times to be understood. PSAB staff suggest changing the wording of the first sentence to the following:
 - *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue arising from binding arrangements with a purchaser that include performance obligations as defined in this [draft] Standard to transfer promised goods or services to the purchaser or third-party beneficiary. This [draft] Standard does not apply to: ...*

Reference to “as defined in this [draft] Standard to transfer promised goods or services to the purchaser or third-party beneficiary” could be included in a footnote to improve the flow of the sentence.

- Consider outlining where an entity might find guidance for certain situations outside the scope of this draft standard. This includes situations as outlined in paragraphs 3(c), 3(f), 3(h) and 3(j). While some situations outside the scope of this standard have included redirections to the relevant IPSAS standard in paragraph 3, other situations outlined as being outside the scope of this standard have not included information on which standard(s) entities should look to for guidance. Such references may be beneficial for stakeholders.
- Paragraph AG6 in the Application Guidance may be redundant considering that paragraph 3(a) of the standard already outlines revenue arising from binding arrangements that do not include performance obligations is covered by ED 71, *Revenue without Performance Obligations*.

PSAB staff also have some minor suggestions to make to the definitions included in Paragraph 7:

- Consider including other examples in the definition of “binding arrangement”. While the definition currently outlines that a contract is a type of binding arrangement, additional examples of other types of binding arrangements may prove useful. Paragraph AG11 in the Application Guidance includes “documented discussions between the parties” as a type of binding arrangement. This could be included as another example of a binding arrangement in the Definitions section of the standard so that it is clear that the term “binding arrangement” extends beyond written contracts.
- The Definitions section outlines the definition of a purchaser. It also outlines that a “customer” is a type of purchaser. However, it does not distinguish what the difference between a customer and purchaser is. The Application Guidance also does not outline what the difference is between a customer and a purchaser. If the term “customer” is not interchangeable with the term “purchaser,” consider outlining the definition of customer so that the difference is clear to readers.

Specific Matter for Comment 2: (Paragraphs BC 20 – BC 22)

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?

PSAB Staff Responses

PSAB staff do not agree with the decision not to define “transfer revenue” or “transfer revenue with performance obligations.” PSAB staff feel that these definitions, as outlined in paragraph BC20 (a) and (b) mirror the definition of “Transfer Expense” included in ED 72 and should therefore be included. PSAB staff do not feel that introducing new definitions related to revenue would be confusing to constituents, particularly when they simply mirror the definition of “Transfer Expense” in ED 72. PSAB staff do not feel that it adds any level of complexity, and instead, ensures consistency between the related standards.

Specific Matter for Comment 3: (AG 69-70)

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?

PSAB Staff Response

Yes, PSAB staff find the application guidance clear and understandable.

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?

PSAB Staff Response

Yes, PSAB staff agree that the disclosure requirements should be aligned with those in IFRS 15 and that no disclosure requirements should be removed.

While the disclosure requirements in IFRS 15 are greater than existing revenue standards, IPSASB has publicly committed to maintaining IFRS alignment as part of its 2019-2023 IPSASB Strategy and Work Plan. Theme B of the 2019-2023 Strategy and Work Plan outlines that global public sector standards should have consistent principles and accounting treatments when the economics of transactions are the same. It also outlines that when transactions are the same in the public and private sector, it makes sense for IPSASB to leverage private sector reporting and to develop an aligned standard.

Given IPSASB's commitment to maintaining alignment with IFRS in its 2019-2023 IPSASB Strategy and Work Plan, PSAB staff feel that it is important to maintain alignment with the disclosure requirements included in IFRS 15. While it may be more onerous for public sector entities, there is no public sector specific reason for anything different.

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

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?

PSAB Staff Response

Yes, PSAB staff agree with the IPSASB decision to include disclosure requirements for public sector entities who are compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. PSAB staff agree with the IPSASB’s reasoning that this type of arrangement may be prevalent and material in certain jurisdictions, and that there is value in disclosing these types of transactions in the financial statements.

OTHER MATTERS – HYBRID TRANSACTIONS

As highlighted in PSAB’s response to ED 71 *Revenue without Performance Obligations*, Paragraph 9 of the [draft] IPSAS ED 71 notes 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 [draft] IPSAS [X] (ED 70). [Draft] IPSAS [X] (ED 70) paragraph AG69 – AG70 provide additional guidance.”

However, it is the PSAB staff position that paragraphs AG69-AG70 in [Draft] IPSAS (ED 70) do not clearly address situations where it is not possible to separate components with performance obligations and components without performance obligations.

Directing stakeholders to [Draft] IPSAS (ED 70) in these types of situations also seems to be in conflict with current IPSAS requirements. Paragraph 4 of IPSAS 23 notes that “... While revenues received by public sector entities arise from both transactions with and without performance obligations, the majority of revenue of governments and other public sector entities is typically derived from transactions without performance obligations.” Given this existing guidance in IPSAS 23, PSAB staff believe that when there is a situation where it is not possible to distinguish between the components with performance obligations and the components without performance obligations, stakeholders should be directed to apply [draft] IPSAS (ED 71), *Revenue without Performance Obligations*.