

International Public Sector Accounting Standards Board
Mr Ian Carruthers, IPSASB Chair
and Mr Ross Smith, IPSASB Program and Technical Director
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Dear Mr Carruthers, dear Mr Smith,

Exposure Draft 70 ‘Revenue with Performance Obligations’

We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on Exposure Draft 70 ‘Revenue with Performance Obligations’ on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Exposure Draft. “PricewaterhouseCoopers” or “PwC” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency and transparency of public sector financial reporting worldwide.

We agree with IPSASB’s proposal to categorise revenue into two categories: (1) transactions with no performance obligations in the scope of ED 71 and (2) transactions with performance obligations in the scope of ED 70; and for category 2 transactions to recognise revenue following a five-step approach based on the fulfilment of performance obligations, and that considers the specific characteristics of the public sector. In line with our more detailed comments, we wish to reinforce the importance of delineating those categories in mutually exclusive while complete scopes.

Exposure Draft 70 ‘Revenue with Performance Obligations’ provides the recognition and measurement requirements for revenue transactions with performance obligations. It is particularly welcome as it will address practical issues in accounting for revenue from exchange transactions and will enhance convergence with IFRS for those transactions that are similar in substance to those entered into by private companies.

If you would like to discuss any of these points in more detail, please contact Henry Daubeney (henry.daubeney@pwc.com) or Patrice Schumesch (patrice.schumesch@pwc.com).

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Patrice Schumesch".

PricewaterhouseCoopers

Responses to the questions in IPSASB's Exposure Draft 70 'Revenue with Performance Obligations'
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The Specific Matters for Comment requested for the Exposure Draft are provided below.

- **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?

We support the view that determination of whether an obligation exists should not be limited to the analysis of legal contracts (the definition of which can vary between jurisdictions) but should rather consider binding arrangements (which may arise from legal contracts or through other equivalent means such as statutory mechanisms - for example, through legislative or executive authority and/or directives).

According to IFRS 15, a contract is an agreement between two or more parties that creates enforceable rights and obligations. A contract can be written, oral, or implied by an entity's customary business practices.

We agree that the substance of the binding arrangement should determine the classification of the arrangement and its accounting treatment rather than its legal form. The proposed scope of the draft Standard ensures that the unique features of the public sector are addressed, without creating a fundamental deviation from IFRS 15 requirements.

Although there is more application guidance on the definition of a binding arrangement in ED 70 than there is in IPSAS 23 and IPSASs 35–38 dealing with interests in other entities, all the pronouncements include a statement to the effect that binding arrangements can be evidenced in several ways and that they may arise from legal contracts or through equivalent means such as statutory mechanisms. We also note that the definitions have been tailored to suit the relevant standards.

We agree that the inclusion of application guidance for identifying the binding arrangement in ED 70 is important because the existence of a binding arrangement is a necessary element for a transaction to be within the scope of the draft standard. We also agree that the additional guidance in the appendix to ED 70 is appropriate.

- **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?

We agree with the IASB’s decision not to define ‘transfer revenue’ or ‘transfer revenue with performance obligations’ for the reasons set out in paragraphs BC20-BC22.

- **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?

We agree with a need to provide application guidance for transactions with components relating to both exposure drafts. The application guidance will help the constituents in assessing the substance of the binding arrangements entered into with a dual purpose.

However, we noted similar requirements in paragraph 9 of ED 71: “Where revenue transactions include components with performance obligations and components without performance obligations, professional judgment is required to determine whether the different components are identifiable”.

To clearly distinguish between revenue with performance obligations and revenue without performance obligations, we suggest that the IPSASB more precisely defines the revenue components that fall under ED 70 and ED 71 if possible. Further, we suggest that the IPSASB considers including guidance on the accounting treatment for a transaction that includes both components of revenue with performance obligations and revenue without performance obligations based on the predominant element (a notion similar to the license guidance in IFRS 15).

We recommend the IPSASB to align the wording used in both exposure drafts to describe the accounting for “dual transactions”, including the scope of the draft Standards and the relevant application guidance. Also, the principles of allocation of transaction price to the components with and without performance obligations should be included in the main body of ED 70, rather than just in the application guidance

In general, we consider that more detailed guidance on the basis of allocation would be helpful. We agree with the rebuttable presumption in AG 69 and the guidance in AG 70 stating that to clearly demonstrate that a portion of the consideration is not related to performance obligations, the binding arrangement must state that if the entity does not satisfy its performance obligations to deliver goods or services, it is required to return only a specified portion of the consideration received. The remaining portion which the entity is not required to return would represent consideration received to help the entity achieve its objectives and would fall within the scope of ED 71. In addition, we propose that IPSASB considers whether AG 96-AG 99 on non-refundable upfront fees is consistent with the application guidance of identifying the portion of the consideration not related to 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?

We agree to replace existing disclosures of IPSAS 9 ‘Revenue from Exchange Transactions’ and IPSAS 11 ‘Construction contracts’ with disclosures proposed by the new standard primarily based on IFRS 15 ‘Revenue from Contracts with Customers’.

For transactions entered into by public sector entities that are similar in substance to transactions entered into by private companies and that fall under the scope of IFRS 15, it is appropriate to adopt accounting and disclosure requirements that are aligned with those in IFRS 15. This is fully in line with IPSASB’s strategy to adopt accounting standards that converge with IFRS when no specific public sector characteristic needs to be taken into account.

- **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?

We agree that a disclosure requirement added in paragraph 120 would lead to a greater transparency around the nature of the transactions in the scope of para 120, the rationale for entering into these transactions and the quantitative impact of these transactions on the financial statements of the public sector entities. This additional disclosure requirement meets the accountability objective of the public sector entities’ financial statements.

We point out the disclosure requirement of ED 70 paragraph 121 for transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period. We recommend that the IPSASB considers how to eliminate potential inconsistency between the scope of disclosures required under paragraph 120 and 121 (for example, due to the fact that the amounts excluded from the transaction price due to probability considerations are not required to be disclosed under paragraph 121).