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**Ian Carruthers**
**Chairman**
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**Submitted via website**

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**Comments to IPSASB's**
**ED 71 "*Revenue without Performance Obligations*"**

Dear Mr. Carruthers,

We are pleased to respond to the IPSASB's ED 71 "*Revenue without Performance Obligations*".

We appreciate that the IPSASB issued ED 70 "*Revenue with Performance Obligations*", ED 71 "*Revenue without Performance Obligations*", and ED 72 "*Transfer Expenses*" in parallel for comment. Given their importance for public sector accounting, we encourage the IPSASB to continue working on the three Standards in parallel and to issue them simultaneously.

We have also noted that currently, principal-agent-relationships are only covered in ED 70 in the Application Guidance. Given the practical importance of principal-agent-relationships in the context of revenue without performance obligations, we suggest that the IPSASB also includes guidance or even principles in a future Standard on Revenue without Performance Obligations and the future Transfer Expenses Standard.

Should you need any further information, please do not hesitate to contact us.

Sincerely,

Thomas Müller-Marqués Berger
Partner and Global Leader of Public Sector Accounting

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

*Annex – detailed responses*

## ED 71 "*Revenue without Performance Obligations*"

**Specific Matter for Comment 1:**
The ED proposes that a present obligation is a binding obligation (legally or by equivalent means), which an entity has little or no realistic alternative to avoid and which results in an outflow of resources. The IPSASB decided that to help ascertain whether a transfer recipient has a present obligation, consideration is given to whether the transfer recipient has an obligation to perform a specified activity or incur eligible expenditure.

*Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, Revenue without Performance Obligations, a specified activity and eligible expenditure give rise to present obligations? Are there other examples of present obligations that would be useful to include in the [draft] Standard?*

We agree with the IPSASB's proposals that for the purposes of this draft Standard a specified activity and eligible expenditure shall give rise to present obligations. It would be useful to further clarify in the standard that eligible expenditure might include the purchase or construction of an asset (such as a capital transfer briefly referred to in paragraphs 108 – 109), provided that there is an obligation to repay that transfer if the asset is not successfully constructed or purchased. In addition, we suggest adding a clarification whether according to the substance of the binding arrangement the present obligation connected to the capital grant is fulfilled by purchasing/constructing the asset or whether it is required to use the asset in a certain way. We don't see other examples of present obligations that would be useful to include in the [draft] Standard.

**Specific Matter for Comment 2:**
The flowchart that follows paragraph 31 of this [draft] Standard (see page 14 of the ED) illustrates the process a transfer recipient undertakes to determine whether revenue arises and, if so, the relevant paragraphs to apply for such revenue recognition.

*Do you agree that the flowchart clearly illustrates the process? If not, what clarification is necessary?*

We are of the view, that the flowchart clearly illustrates the process and have no further remarks.

**Specific Matter for Comment 3:**
The IPSASB decided that a transfer recipient recognizes revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation.

*Do you agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time. If not, what further guidance is necessary to enhance clarity of the principle?*

We are generally fine with the flowchart, but have the following remark:

- In para. 58 of ED 71 it is stated: "If the transfer recipient does not satisfy a present obligation over time, the present obligation is satisfied at a point in time." We suggest to add the following text "If the transfer recipient does not satisfy a present obligation over time **according to the binding arrangement**, …". This would make clear that the substance of the binding arrangement should be assessed.

**Specific Matter for Comment 4:**
The IPSASB decided that the objective when allocating the transaction price is for a transfer recipient to allocate the transaction price to each present obligation in the arrangement so that it depicts the amount to which the transfer recipient expects to be entitled in satisfying the present obligation. The amount of revenue recognized is a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied.

*Do you agree sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations? If not, what further guidance is necessary to enhance clarity of the principle?*

Para. 81 of the ED states the principle that „The amount of revenue recognized shall be a proportionate amount of the resource inflow recognized as an asset, based on the estimated percentage of the total enforceable obligations satisfied." According to our understanding, this wording suggests that "estimation" is given preference over actual fulfilment of present obligations. However, based on our experience, it is often the case that binding arrangements clearly specify at what point in time a present obligation is fulfilled or partly fulfilled (e.g. definition of milestones). If that is the case, no estimation is necessary and the requirements or specifications in the binding arrangement should be given preference. Furthermore, in cases where no clear milestones are defined in the binding arrangement, it should be possible, under certain circumstances, to recognize revenue before the present obligation is completely fulfilled. In our view, this is for instance the case if a percentage of completion approach could be used to reliably estimate the fulfillment of the obligation.

However, the proposal of para. 81 of the ED may overlook the obligations to return the transferred amount or the partially completed asset to the transferor if the performance obligation is not fully satisfied at the end of the project. From the ED it is not clear whether the guidance for these cases would be to recognize revenue in line with the percentage of completion approach, plus a corresponding provision or disclosure of a contingent liability for the potential return of the transferred amount or the partially completed asset. Another alternative could be to defer the recognition of revenue for these cases until the performance obligation is fully satisfied. For these reasons, more guidance is needed on how to properly define and measure the fulfillment of the present obligation (similar to the guidance provided for identifying performance obligations in ED 70).

**Specific Matter for Comment 5:**
*Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, Financial Instruments? If not, how do you propose receivables be accounted for?*

We agree that measuring receivables within the scope of ED 71 should be subsequently measured in accordance with IPSAS 41. However, in practice we note that such receivables are often subject to public sector specific recoverability considerations (e.g. in the European Union). In addition, certain receivables that arise from statutory/ legislative transfers might be difficult to determine a fair value as there might not be a market to identify a value between willing parties at arm's length. Some additional guidance on this aspect might be useful.

**Specific Matter for Comment 6:**
The disclosure requirements proposed by the IPSASB for revenue transactions without performance obligations are intended to provide users with information useful for decision making, and to demonstrate the accountability of the transfer recipient for the resources entrusted to it.

*Do you agree the disclosure requirements in this [draft] Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations? In particular, (i) what disclosures are relevant; (ii) what disclosures are not relevant; and (iii) what other disclosures, if any, should be required?*

We noted that ED 71.128 and 130 state general principles. As these principles are already laid down in the IPSASB's suite of standards, we consider them as not necessary to be provided there. In our view, ED 71.129 might not be fully clear from an application perspective and we suggest that it could be explained better what preparers would need to do here.

We are also wondering why according to ED 71.131 (c) there is not a requirement to further break down liabilities recognized in respect of transferred assets subject to present obligation into „major classes" in line with para. 131 (a) (iii)?. We have noted that para. 134 of the ED just encourages to do so.

Given that the uptake of IPSAS 18 in practice is rather limited, we suggest to phrase para. 142 of the ED not as a requirement.

Finally, we would like to note with respect to disclosure requirement in para. 146 that depending on extent and depth of the binding arrangements of an entity this can be a very onerous task.

**Specific Matter for Comment 7:**
Although much of the material in this [draft] Standard has been taken from IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers), the IPSASB decided that the ED should establish broad principles for the recognition of revenue from transactions without performance obligations, and provide guidance on the application of those principles to the major sources of revenue for governments and other public sector entities. The way in which these broad principles and guidance have been set out in the ED are consistent with that of [draft] IPSAS [X] (ED 72), Transfer Expenses.

*Do you agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out? If not, what improvements can be made?*

As outlined earlier, we suggest that the three Standards should follow a consistent approach (e.g. in terms of providing guidance around principal-agent relationships). The IPSASB should continue to consider the cross-cutting issues when finalizing the Standards.