October 19, 2020

Mr John Stanford

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street, 4th floor

Toronto

Ontario M5V 3H2

CANADA

RE: Comments on ED 71, *Revenue without Performance Obligations*

Dear Mr. Stanford,

We welcome the opportunity to comment on Exposure Draft 71, *Revenue without Performance Obligations*. Our responses to the specific questions raised in the ED as well as other comments on the ED are set out in Appendix A.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Mr. Abdullah Alhomaida via email at:

a.alhomaida.kfa@mof.gov.sa.

Yours sincerely,

Accrual Accounting Center

The Ministry of Finance, Saudi Arabia

Appendix A: Responses to Specific Questions and Other Comments on ED 71

Specific Matter for Comment 1: (Paragraphs 14-21)

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?

[Our Comments] We 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.

Specific Matter for Comment 2: (Paragraph 31)

The flowchart that follows paragraph 31 of this [draft] Standard 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?

[Our Comments] We agree that the flowchart clearly illustrates the process.

Specific Matter for Comment 3: (Paragraph 57-58)

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?

[Our Comments] We agree that sufficient guidance exists in this draft Standard to determine when a present obligation is satisfied and when revenue should be recognized.

Specific Matter for Comment 4: (Paragraphs 80-81):

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?

[Our Comments] We agree that sufficient guidance exists in this draft Standard to identify and determine how to allocate the transaction price between different present obligations.

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

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?

[Our Comments] We 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*.

Specific Matter for Comment 6: (Paragraphs 126-154):

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?

[Our Comments] We agree that the disclosure requirements in this draft Standard provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations.

Specific Matter for Comment 7: (Paragraphs N/A):

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?

[Our Comments] We agree with the approach taken in the ED and that the structure and broad principles and guidance are logically set out.

[Other Comments]

1. It is understood from paragraphs 108, 109, BC21, BC22 and BC23 that this draft Standard assumes that the types of present obligations relating to capital transfers include: (a) the procurement or construction of a capital asset and (b) the operation of the capital asset in a particular way for a specified period of time. It is suggested to incorporate guidance for the recognition of revenue where the present obligation is to operate the capital asset in a particular way for an unspecified period of time. Will revenue be recognized systematically over the useful life as the asset is depreciated?

2. It is suggested to include in paragraphs BC12-BC13 clarifications on:
    - Why the IPSASB has changed the definition of "a present obligation" from a "condition to return resources unless consumed by the recipient as specified" to a "specified activity" or a "requirement to incur eligible expenditure".
    - How entities will be affected by the requirement to defer revenue for the unfulfilled presentation obligation as defined by the draft Standard, taking into consideration that in the majority of cases present obligations are imposed by the operating mandate of the entity.

    Also, many jurisdictions would benefit from more examples illustrating the application of the requirements of the Standard to government appropriations, particularly in respect of identifying binding arrangements and present obligations and the accounting for transfer revenue associated with capital and operating expenditures in the different situations. Therefore, it is suggested to incorporate such illustrative examples.