November 2, 2020

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, OH M5V 3H2 Canada
Reference:
Exposure Draft 70, Revenue with Performance Obligations (ED 70)
Exposure Draft 71, Revenue without Performance Obligations (ED 71)
Exposure Draft 72, Transfer Expenses (ED 72)

Dear Mr. Smith:

Thank you for the opportunity to offer comments in response to ED 70, ED 71, and ED 72. This response was prepared by the Governmental Accounting Standards Board's (GASB) staff. A draft of this response was provided to the individual GASB members for their input. Official positions of the GASB are determined only after extensive due process and deliberations.

Our comment letter is organized in three major sections. In the first section, we provide feedback about technical topics in the three Exposure Drafts. To the extent possible, the comments are related to a *specific matter for comment* (SMC) in each Exposure Draft; however, not every issue raised was identified as an SMC. The second section of our response addresses editorial recommendations for the IPSASB's consideration. The last section addresses fundamental concerns regarding those proposals from a conceptual standpoint.

TECHNICAL TOPICS

Scope

Binding Arrangements, Performance Obligation versus Present Obligation

We believe that the delineation of the boundaries between ED 70 and ED 71 could be enhanced, thus improving the understandability of both final Statements. The overall scope guidance provided in the first section of paragraph 3 of ED 70 includes clarification of the relationship with the scope of ED 71. However, the clarifying guidance is written from the perspective of a stakeholder who understands the concepts expressed in ED 71, which may or may not be the case when a stakeholder first reads the guidance.

We recognize that the intent of the IPSASB is to provide a binary answer for scope; that is, the transaction is addressed in a single Statement or the transaction is bifurcated to achieve the same result. However, because the scope is not symmetrically defined based on the same attributes, we do not believe that this desired result will be achieved in practice. Relying on the guidance provided in paragraphs AG4—AG7 of ED 71, we identified three groups of revenue transactions addressed in the two EDs:

1. Revenue transactions with performance obligations—ED 70
2. Revenue transactions with present obligations—ED 71
3. Revenue transactions with neither performance obligations nor present obligations—ED 71.

As discussed in our comments presented in the final section of this response, we have fundamental concerns with the basis that the IPSASB used to distinguish group one and group two transactions. As explained in paragraph AG4 of ED 71, there is only one difference between group one and group two; that is, performance obligations require the *transfer* of distinct goods or services to another party, while present obligations do not require a transfer but require an action or the incurrence of allowable costs. If the IPSASB ultimately does not agree with our fundamental concerns, we believe that this difference should be clearly identified when a reader first encounters the final Statement that ED 70 will lead to or even as the reader navigates the final Statement that ED 71 will lead to. We would recommend that paragraph 3(a) of ED 70 be expanded to include some of the application guidance (AG) provided in paragraphs AG4—AG7 of ED 71 and paragraph 3(a) of ED 71 be further expanded to include some of those application guidance (AG) provisions.

Transfer Provider, Transfer Recipient, Transfer Revenue, and PSPOA

SMC 2 in ED 70 asked whether stakeholders agree with the IPSASB's tentative decision not to further develop of a definition in ED 70 for *transfer revenue* or *transfer revenue with performance obligations* that would address transactions that would be accounted for under the Public Sector Performance Obligation Approach (PSPOA) as described in the IPSASB' 2017 Consultation Paper, *Accounting for Revenues and Non-Exchange Expenses*. We do not agree with the approach of calling transactions by one name in the revenue guidance and by a different name in the expenditure guidance because we believe it creates challenges for stakeholders to understand the interrelationships between the future standards. In other words, it becomes unclear that the proposals in ED 72 for expenditures relate to the revenue recognition proposals in ED 70 and ED 71.

We understand a concern from a revenue perspective that it could be potentially confusing to introduce another term to describe the same revenue transaction. Our suggestion would be to consider an alternative manner of creating the linkage between revenue recognition with the PSPOA (ED 70) and expense recognition with the PSPOA (ED 72). Furthermore, our suggestion would be to create a relationship between transfer revenues and transfer expenses only with present obligations (ED 71 and ED 72). We believe that establishing this bridge between each of the final Statements can help stakeholders better understand the recognition methodology. We believe that these proposals should be symmetrical, and this symmetry generally assists stakeholders in better understanding the proposed principles and allows them to apply the principles consistently. If stakeholders struggle to identify the linkages, diverse application may arise. (See the editorial section in reference to utilizing the same term to mean different things: *transfer* of control of an asset, *transfer* provider and *transfer* recipient.)

Recognition Considerations

Recognition Principles

We believe that the recognition principles proposed in paragraphs 32, 33, 45, and 46 of ED 71 should be evaluated in the context of the IPSASB's conceptual framework and refined for clarity and purpose. We have a significant concern overall about the consistency of the narrative. The proposals included in paragraphs 32, 33, 45, and 46 of ED 71 are as follows:

> 32. Assets are defined in IPSAS 1 as resources controlled by an entity as a result of past events, and from which future economic benefits or service potentials are expected to flow to the entity.
>
> 33. An inflow of resources from a transaction without performance obligations, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when:
>
> (a) It is probable that the future economic benefits or service potential associated with the asset will flow to the transfer recipient; and
> (b) The value of the asset can be measured reliably.[3]
>
> [3] Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.
>
> * * *
>
> 45. When a transfer recipient recognizes an asset for an inflow of resources, it shall consider if there are present obligations related to the inflow which 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:

(a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
(b) A reliable estimate can be made of the amount of the obligation.

At first glance, the asymmetrical narrative between assets and liabilities appears to be a simple editorial issue. Specifically, the asset recognition guidance includes an asset definition while the liability recognition guidance does not include a liability definition, and criterion (b) in paragraphs 33 and 46 of ED 71 above are expressed differently for assets and liabilities. Upon further examination, the proposed recognition guidance creates a tautology, and it focuses on existing guidance provided in IPSAS 1, *Presentation of Financial Statements*. We realize that IPSAS 1 has been continually updated since its original issuance in 2000, including amendments made in light of the conceptual framework; however, we believe that the IPSASB conceptual framework should be used as the foundation on which IPSAS standards are based.

Asset Recognition

The first issue that we identified was that the narrative appears to be circular. The lead-in to paragraph 33 proposes that an inflow of resources should be recognized as an asset if it meets the definition of an asset and then introduces two criteria—one of which corresponds to the definition of an asset provided in IPSAS 1. This approach could lead a reader to conclude that the asset recognition process entails three aspects (alluded to in paragraph 44 of ED 71): an item (1) possessing essential characteristics of an asset, (2) meeting the definition of an asset, and (3) being measurable. We believe that if an item possesses essential characteristics of an asset, it meets the definition of an asset.

This issue can be resolved by relying on the IPSASB's conceptual framework, specifically Chapter 5 for element definitions and Chapter 6 for recognition guidance. Paragraph 6.2 of Chapter 6 provides two recognition criteria as follows: "(1) an item satisfies the definition of an element; and (2) can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs." Paragraph 5.6 of Chapter 5 defines an asset as: "a resource presently controlled by the entity as a result of a past event;" Paragraph 5.7 of Chapter 5 goes on to describe a resource as ". . . an item with service potential or the ability to generate economic benefits."

Considering the conceptual framework, we recommend removing paragraph 32 of ED 71 as we are not persuaded by the need to include the definition of an asset. We especially are troubled by the inclusion of a definition of an asset that is not exactly the same as that established in the conceptual framework. We recommend the following clarifications to guidance included under the heading, *Recognition of Assets Arising from Resource Inflows*:

> An inflow of resources from a transaction without performance obligations, other than services in-kind, ~~that meets the definition of an asset~~ shall be recognized as an asset when~~, and only when~~:
>
> (a) <u>The resource is presently controlled by the transfer recipient as result of a past event</u> ~~It is probable that the future economic benefits or service potential associated with the asset will flow to the transfer recipient~~; and
>
> (b) The value of the asset can be measured ~~reliably~~ <u>in a way that sufficiently reflects the qualitative characteristics and takes into account constraints on information in GPFRs</u>.

We believe that our recommended clarifications create consistency with the IPSASB's conceptual framework regarding element definitions and recognition with the inclusion of measurement guidance. This recommendation also further clarifies that an item should be recognized as an asset when it meets the definition of that element and its measurement sufficiently reflects the qualitative characteristics of general purpose financial reports (GPFRs). Because Chapter 5 of the IPSASB's conceptual framework elaborates on *service potential or future economic benefits* as part of the narrative of resources (under the asset heading), the proposed guidance in paragraphs 34–43 of ED 71 remains relevant. (Specific issues are raised in subsections below.)

With regard to the second recognition criterion, we do not believe that there should be a focus on *reliability*. As discussed in paragraph BC3.10 of Chapter 3 of the conceptual framework, the IPSASB selected the term faithful representation over reliability to communicate a meaning of precision. It would appear thereby incongruous to focus on a qualitative characteristic that the IPSASB discarded in its conceptual framework. We believe that focusing on a single qualitative characteristic is even more troubling. As also noted in Chapter 3 of the conceptual framework (paragraph 3.41), a balance is needed when considering qualitative characteristics, and no single focus should be placed on one characteristic because of potential unintended consequences. For example, if a transaction amount is unknown, and there is a need to develop an estimate, overly focusing on precision (whether expressed as reliability or representationally faithful) can cause significant delays in the issuance of financial statements, thereby negatively impacting timeliness and potentially impacting cost-benefit constraints. To address this issue, we recommend that the second criterion be reflective of the guidance in paragraph 6.2 of Chapter 6 of the conceptual framework.

We acknowledge that the conclusion to depict measurement with a sole focus on reliability may be based on the conclusions of IPSAS 1 (as noted in footnote 3 of ED 71); however, as previously noted, we believe that it is more appropriate for the IPSASB to rely on its own conceptual framework. If our proposal to focus on all qualitative characteristics to assess measurement of an item is rejected, we recommend that at a minimum, the criteria in paragraphs 33b and 46b be written symmetrically to avoid conveying that measurement attributes for an asset are different than measurement attributes for a liability.

Liability Recognition

The proposed guidance for the recognition of a liability has similar issues as the proposed guidance for the recognition of an asset, which adds complexity to what we believe is an already inconsistent narrative between the asset and liability recognition proposals. Paragraph 5.14 of Chapter 5 of the IPSASB's conceptual framework defines a liability as follows: "a present obligation of the entity for an outflow of resources that results from a past event." By relying on this definition of *liability* and the recognition guidance in paragraph 6.2 of Chapter 6 of the conceptual framework referenced in the section above, we recommend the following edits to paragraphs 45 and 46 of ED 71:

> When a transfer recipient recognizes an asset for an inflow of resources from a transaction without performance obligations, the transfer recipient ~~it~~ shall ~~consider if there are present obligations related to the inflow which result in the recognition of~~ recognize a liability when:
>
> ~~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:~~
>
> (a) The inflow of resources (previously recognized in paragraph 33, as result of a past event) also imposes a present obligation on the transfer recipient for an outflow of resources that ~~It is probable that an outflow of resources embodying future economic benefits or service potential~~ will be required to settle the obligation; and
>
> (b) The value of the liability can be measured in a way that sufficiently reflects the qualitative characteristics and takes into account constraints on information in GPFRs. ~~A reliable estimate can be made of the amount of the obligation~~.

We believe that our recommendations create symmetrical recognition guidance for assets and liabilities and further harmonize the proposed guidance in ED 71 with the IPSASB's conceptual framework.

Past Event

Proposed guidance for identifying the past event that gives rise to an asset or liability is provided in paragraphs 38 and 51 of ED 71. We recommend creating a closer link between the *past event* and the asset (or liability) *recognition criteria* proposals. The recognition criteria discussed in the section above are principles based and derived from the IPSASB's conceptual framework and, as such, those recognition criteria are applicable to the recognition of all assets (from all revenue transactions). Therefore, the *past event* becomes the distinguishing factor between the recognition of a receivable in a transaction with performance obligations (ED 70) and the recognition of a receivable in a transaction with present obligations or a tax receivable (ED 71).

Notwithstanding the circumstances in which cash is received before a receivable arises, which is discussed in the section for advances (below), the past event that gives rise to the recognition of a receivable from transactions with performance obligations is the satisfaction of those performance obligations—the transfer of control of resources. The past event that gives rise to the recognition of a receivable in a transaction with present obligations is the satisfaction of those present obligations—by actions and activities or the incurrence of allowable costs. The past events that give rise to the recognition of receivables in tax transactions are identified clearly in paragraphs 94 and 95 of ED 71. If the IPSASB agrees that this clarification would enhance the understandability of the final Statement, edits also would be needed in paragraphs 89 and 107 of ED 71 to ensure that stakeholders are not confused about meeting the definition of an asset and additional recognition criteria, as discussed in the prior section.

We believe that clarifying the relationship between the past event and meeting the definition of an element of financial statements would establish a clear relationship between the asset recognition proposals and could solidify the revenue recognition guidance proposed in both Exposure Drafts.

Advance Receipt of Taxes

We believe that the IPSASB also should further clarify the circumstances in which advances arise. An advance can be defined as the receipt of cash (or other assets) before the point at which an entity can recognize a receivable.

The proposed guidance in paragraph 96 of ED 71 addresses circumstances in which a government receives resources before the taxable event that gives rise to a receivable. While we concur with the conclusion of the IPSASB that this circumstance represents a liability, we note that this conclusion is equally relevant for revenue transactions with either performance obligations or present obligations. That is, an advance eventuates when the counterparty provides resources before the entity's satisfaction of a performance obligation or a present obligation, as proposed in paragraph 46 of ED 71.

Also, it appears reasonable to examine what *type* of liability the advance represents in each circumstance. If an entity receives resources before satisfying an obligation (performance or present), the liability represents a present obligation to sacrifice resources in the fulfillment or discharge of that obligation. However, an advance for transactions without a performance obligation or a present obligation represents a *liability for refund*. That is, the entity is not yet entitled to the resources and unless the taxable event (identified in paragraphs 94 and 95 of ED 71) takes place, the entity is required to return the resources to the counterparty. Furthermore, an entity is entitled to a resource once the taxable event takes place and, as a result, an entity can recognize revenue. It is noted in paragraph 96 of ED 71 that the occurrence of the taxable event is the discharge of a liability by the entity. We do not agree that a taxable event creates a circumstance of *discharging a liability*. The occurrence of a taxable event simply removes the refundability of the resources received—we do not believe that the entity has *discharged a liability* because it has not sacrificed any resources.

We encourage the IPSASB to include clarifications about recognition criteria, the relationship with the past event that gives rise to a receivable, and the recognition of advances. Those clarifications could better assist stakeholders in understanding how to apply the final provisions for revenue recognition.

Contingent Assets

While we agree with the intent of the proposal in paragraph 44 of ED 71 that provides that items that meet the definition of an asset but cannot be measured in a manner that sufficiently reflects qualitative characteristics of GPFRs should be disclosed, we question the need to identify this circumstance as a *contingent asset*. As discussed in the introduction of this subsection, if the recognition proposal is modified to identify recognition of an asset based on two criteria: (1) meeting an element definition and (2) meeting measurement characteristics, then there are three scenarios to consider. The three scenarios are: (1) an item does not meet the definition of an asset and cannot be measured, (2) an item meets the definition of an asset but cannot be measured, and (3) an item can be measured but does not meet the definition of an asset—generally because the entity fails to assert control. However, the second scenario appears to correspond to the proposal in paragraph 44 of ED 71, and the third scenario often relates to a circumstance in which the government can determine the amount of consideration involved in a transaction but cannot conclude that it controls an asset.

In our recommended edits to paragraph 33 of ED 71, we purposefully removed the word *probable* because, in our opinion, that communicates that the entity would need to rely on a probability assessment for control over the resource. Regarding whether the IPSASB ultimately refers to the second scenario as a contingent asset, we recommend the IPSASB be more explicit that this is not intended to convey the need to recognize an asset in situations in which an entity does not control a resource.

Other Present Obligation Issues

Satisfaction of Present Obligations

The proposed guidance in paragraph 58 of ED 71 provides that the transfer recipient should determine at inception whether the present obligations are satisfied at a point in time or over time. However, no guidance is proposed on how to make that assessment. If the IPSASB expects stakeholders to rely on the criteria proposed in paragraphs 34—37 of ED 70 to make that determination; we recommend that clarifying guidance based on ED 71 be provided on this issue in the final Statement. We recognize that ED 70, ED 71, and ED 72 constitute a suite of pronouncements, and we realize that ED 72 heavily relies on guidance provided in ED 70 and ED 71. However, we believe it is important for stakeholders to understand that if is an expectation to rely on guidance in other pronouncements, then specific references to the appropriate sections in those relied upon pronouncements should be provided. [SMC 3, ED 71.]

It also is noteworthy to mention that the idea that a present obligation can be satisfied at a point in time or over time is not always reflected consistently throughout ED 71. For example, in paragraph 59, the measurement guidance proposed leads one to conclude that a present obligation can only be satisfied at a point in time. We recognize this is an editorial concern, but it can create conceptual challenges if a final pronouncement is not consistently described.

Unit of Account

The guidance proposed in paragraphs 80 and 81 of ED 71 provides that present obligations should be measured at an allocated transaction price. However, the proposed guidance does not identify the recognition unit of account. In ED 70, the identified unit of account is each performance obligation that is assessed as a distinct good or service promised in the binding arrangement. The text of the proposed standard (ED 71) is not clear about the recognition unit of account, and without additional guidance, we are concerned that the stakeholders would need to apply guidance in ED 70 to determine how many present obligations are included in their binding arrangements. Implementation guidance is provided in paragraphs AG4–AG8, which lead us to conclude that the recognition unit of account for ED 71 also is distinct goods or services, while paragraph 17 of ED 71 includes reference to present obligations as items such as *eligible expenditure* (further guidance in paragraphs 20 and 21) and *specified activities* (further guidance in paragraphs 18 and 19). As a result, we are uncertain about how distinct goods or services would relate to circumstances in which the satisfaction of a present obligation requires an action or the incurrence of an allowable cost (which may not include a distinct good or service). For example, the incurrence of allowable costs for grant administration or an action such as loss of revenue would be considered present obligations, but there is no relationship to distinct goods or services. We recommend considering the development of specific guidance for how to determine the unit of account for present obligations applicable to transactions in the scope of ED 71. [SMC 4, ED 71.]

Symmetry in PSPOA

We believe the proposal in paragraph 13(d) of ED 72 would require the transfer provider to account for the outflow under PSPOA *only* if the transfer provider decides to monitor the binding arrangement for its duration. While this interpretation may not be the intent of the IPSASB, if our interpretation is correct, we believe that the resulting application would be conceptually inconsistent with the standard's core principles proposed in paragraph 1 of ED 72. If the transaction includes a performance obligation, management's intent to monitor or not monitor such a transaction should not be an attribute to determine that there are no performance obligations. If the IPSASB chooses this approach, we believe that asymmetrical recognition between the transfer provider and the transfer recipient would arise. For example, the transfer recipient would conclude that this transaction is in the scope of ED 70 and would recognize revenue as it satisfies its performance obligation. Meanwhile, the transfer provider, who is unwilling to monitor the transaction, would conclude that the transaction does not include a performance obligation and would recognize expense only as it incurs cash outflows, thereby never recognizing payables for the performance of the transfer recipient.

We acknowledge the challenges that the PSPOA approach poses for transfer providers, specifically the uncertainty of identifying when the resource provider has transferred control of resources to a third-party beneficiary. Nevertheless, we believe that proposing a recognition exception in accordance with management's preferences undermines the definition of a performance obligation. If our interpretation is correct and the IPSASB carries forward this proposal to a final Statement, we recommend that it be identified as a "practical expedient" and that the IPSASB provide a cost-benefit rationale to avoid creating confusion about what is a performance obligation. [SMC 3, ED 72.]

Measurement Considerations

From a measurement perspective, our overall recommendation is for the IPSASB to take a deliberate approach to decide whether measurement should be focused on assets or revenues. Chapter 7 of the IPSASB's conceptual framework explicitly places the focus of measurement on assets (and liabilities); therefore, it would appear relevant to consider whether relying on transaction price is conceptually sound when considering asset measurement.

We acknowledge that the IPSASB chose to follow the same path as the International Accounting Standards Board (IASB) did in International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers* by relying on transaction price as the basis for *revenue* recognition; however, we question whether the application of the measurement principles proposed in ED 70 can be consistently applied to ED 71.

Transaction Price

ED 70 Measurement

Paragraph 7 of ED 70 includes the following description of transaction price: "the amount of consideration to which an entity expects to be entitled. . . in exchange for transferring promised goods or services to a purchaser or a third-party beneficiary, excluding amounts collected on behalf of third parties." Furthermore, proposed guidance in paragraph 45 of ED 70 states the following:

> When (or as) a performance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 55–57) that is allocated to that performance obligation.

We believe that this proposed guidance communicates that transaction amount is a measurement characteristic of *revenue,* not of the asset. Relying on the proposed guidance in paragraphs 46–71 of ED 70, we concluded that:

- Stated Binding Arrangement Amount = fixed and variable consideration specified in the terms and conditions of the binding arrangement (paragraph 46 of ED 70), which can include monetary and nonmonetary consideration.

- Transaction Price = Stated Binding Arrangement Amount – unconstrained variable consideration – refund liabilities - effects of financing component (present value).

Consider how the proposed guidance in paragraph 54 of ED 70 would be operationalized in the following example: An entity sells a good to a customer for CU1,000, whereas the entity offers a no-questions-asked refund for CU100 if the customer is not satisfied with the product. (The customer is not required to return the good.) The entity satisfies its performance obligation by transferring the good and invoices the customer. In order to apply the proposal in paragraph 54 of ED 70, the entity would have to recognize a receivable at CU1000, recognize a refund liability for CU100, and recognize, therefore, revenue at CU900, which is reflective of *transaction price;* the asset amount is not reflective of transaction price.

ED 71 Measurement

We believe that there is an apparent incongruence between the measurement proposals in ED 70 and ED 71 because of *transaction price*. Unlike ED 70, we believe that the guidance in ED 71 cannot be expanded to be applied to the measurement of assets. For example, the proposal provided in paragraph 59 of ED 71 (which we assume is intended to be reflective of the proposal provided in paragraph 45 of ED 70 shown above) states that:

> An asset in a revenue transaction without performance obligations but with one or more present obligations shall initially be measured by the transfer recipient at its transaction price at the date in which the criteria for asset recognition is satisfied (see paragraphs 60-79).

As previously noted, we recommend that the conceptual framework, and not IPSAS 1, be applied. We believe that proposing the use of transaction price to describe asset recognition can have negative consequences. For example, an entity imposes a property tax on its citizenry, and one citizen receives a property tax bill for CU1,000. The taxpayer may pay the CU1,000 bill but does so under protest. Depending on the jurisdiction, the process for resolving taxpayers' payments in protested taxes can be resolved over a period of time, and the courts ultimately determine the amount that the property tax owner should have paid. Assume that the entity determines that it would need to reimburse CU100 to the property taxpayer. The entity then recognizes cash for CU1,000, refund liability for CU100, and property tax revenue for CU900, thereby revenue is reflective of *transaction price*—the amount that an entity expects to be entitled to, but the asset is not representational of transaction price.

We believe that if the guidance focuses on the asset recognition and requires the asset recognition to be reflective of transaction price, the entity cannot recognize the cash received that is expected to refund the taxpayer for a potential overpayment. Similar issues can be raised for circumstances in which the government has to recognize a receivable but expects to return a portion of those resources to its citizens. The questions in those circumstances become: should the entity recognize the gross receivable and a liability, or should the entity recognize a receivable that is not reflective of the returns?

For this reason, we encourage the IPSASB to consider revising the propose guidance in ED 71 during the development of a final Statement to be more consistent with its conceptual framework and address the issues associated with the measurement of *revenue* that is focused on transaction price.

Fair Value Measurement

We recognize that the IPSASB has existing guidance for *transaction price*. For example, IPSAS 29, *Financial Instruments: Recognition and Measurement*, addressed transaction price as a synonym for fair value (ED 70, amendments to the Basis for Conclusions [BC 17] of IPSAS 29). We encourage the IPSASB to consider the broad implications of carrying on the assumption that transaction price equals fair value in the context of the proposed Exposure Drafts.

In addition, we are concerned that the assumption that transaction price is equivalent to fair value may have been introduced in some of the proposals in ED 71, specifically in paragraphs 90 and 97, as follows:

> . . . . Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. . . .
>
> * * *
>
> Similar to the measurement of assets for transfers with present obligations as required by paragraph 60, assets arising from taxation transactions are measured at their transaction price. Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the transfer recipient, which is consistent with most likely amount in paragraph 67. The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets.

We believe that proposing guidance to recognize a tax receivable at fair value can produce unintended consequences in the recognition of revenue arising from tax transactions and in other transactions in the scope of ED 71.

We acknowledge that this circumstance is more evident in imposed taxes, such as property taxes, but is less common in derived taxes, such as sales or personal income taxes. Nevertheless, we believe that focusing the asset recognition on a fair value measurement should be reserved for circumstances in which there is no stated transaction amount, such as donations of commodities and capital assets.

We acknowledge that the IPSASB is currently working on a measurement project and a limited scope conceptual framework update related to measurement. We encourage the IPSASB to consider initial measurement and determine under which circumstances the stated transaction amount should be overridden in favor of a measurement attribute such as fair value (or its entry price equivalent). We believe this is a critical issue to resolve as it has significant implications in ED 71. We are not persuaded by the IPSASB's proposals that result from considering the fair value of transactions in the scope of ED 71. Specifically, we do not agree with the conclusion that transactions should be bifurcated in circumstances in which the stated transaction amount exceeds the value of exchanged goods or services (paragraphs AG69 and AG70 of ED 70). We are similarly not persuaded by the conclusions reached regarding concessionary loans in paragraphs 119 and 120 of ED 71.

Collectibility

While we understand that the difference between collectibility and implied price concessions is theoretically identifiable, it is very challenging to differentiate between the two in practice. To assist stakeholders in better assessing the difference, we recommend that the IPSASB define *collectibility* based on the concepts expressed in nonauthoritative examples; that is, collectibility relates to customer credit risk reflected in the customer's ability and willingness to pay. Conversely, implied price concessions reflect the entity's willingness to accept a lower price. Furthermore, we recommend updating examples 5, 6, and 7 in ED 70 to reflect the IPSASB's intent. It is notable that example 5 attempts to illustrate a collectibility issue but does not refer to the customer's willingness or ability to pay; yet example 7, which attempts to illustrate implied price concessions, discusses the patient's ability and intention to pay. This overlap in the narrative creates further challenges to understanding the differences between collectibility and implied price concessions.

We also do not agree with the conclusions reached in example 5 of ED 70 (paragraphs IE17–IE20). In the example proposed, the local government believes that the customer may pay up to CU180,000, which represents approximately 72% of the stated contract price. When the local government enters into the binding arrangement, the entity accepts terms and conditions of the program that allow the customer to stop payment when they reach superannuation. Therefore, the entity is aware of this circumstance and should reflect it in the assessment of *transaction price*, which would be lower than the stated contract price. We do not agree that this assessment would result in a conclusion that the transaction is uncollectible; rather, this example supports a conclusion that the local government provided an implied price concession. We recommend that a similar example be considered, but one in which the customer experiences financial distress (or bankruptcy) and, therefore, that the customer credit risk issue be highlighted as a factor in the assessment of the collectibility of the transaction. The example as proposed then can be used to compare and contrast customer credit risk, which affects the assessment of collectibility, and an implied price concession, which is the result of the local government agreeing to accept an amount lower than the stated contract price.

EDITORIAL TOPICS

Scope—Objectives

While we recognize that the scope objectives and respective recognition overview proposals in paragraphs 1 and 2 of ED 70 are reflective of IFRS 15, we recommend that careful consideration be placed on how those objectives and recognition overviews are carried forward to ED 71 and ED 72. Paragraph 1 of ED 71 proposes an objective consistent with the intended scope boundary—revenue transactions without performance obligations. However, paragraph 2 of ED 71 appears to communicate a recognition overview only for transactions with present obligations, which could be confusing to stakeholders for issues related to revenue recognition for transactions without present obligations.

Similar issues can be noted in ED 72; however, we believe the issues in ED 72 are more substantive and therefore are noted in the technical section above. After considering our technical recommendations, we also recommend that the IPSASB consider addressing the unclear narrative issue in paragraph 2 of ED 72.

Scope—Definitions

An editorial concern with regard to scope is the inconsistency in the development of definitions in the glossary. From ED 70, consider improving consistency in the definitions between (1) binding arrangement and contract, (2) binding arrangement asset and binding arrangement liability, and (3) purchaser and customer. The definitions from ED 70 are presented first, followed by our recommendations in markup.

Binding Arrangement and Contract

> A binding arrangement is an arrangement that confers both enforceable rights and obligations on both parties to the arrangement. A contract is a type of binding arrangement (paragraphs AG7-AG12 provide additional guidance).
>
> A contract is an agreement between two or more parties that creates enforceable rights and obligations.

The binding arrangement is defined with the same term. Furthermore, the challenge with the definition is that as stated, it can be interpreted that a binding arrangement can only encompass two parties, while the definition of a contract is clear that it can involve two or more parties. However, if a contract is a type of a binding arrangement, clearly the binding arrangement should encompass transactions between two or more parties. We acknowledge the challenge that arises as a result of the third-party beneficiary and that such party does not have rights and obligations. Our recommendation to address those issues is as follows:

> A binding arrangement is an ~~arrangement that confers~~ <u>understanding between two or more parties that creates</u> both enforceable rights and obligations ~~on both parties~~ <u>for the parties</u> to the arrangement. A contract is a type of binding arrangement (paragraphs AG7-AG12 provide additional guidance). <u>A third-party beneficiary is not a party to the transaction (definition below)</u>.
>
> A contract is an agreement between two or more parties that creates enforceable rights and obligations <u>for the parties to the transaction</u>.

Additionally, we recommend improving consistency in the relationship between a contract and a binding arrangement. In paragraph BC16 of ED 70, it is unclear if the IPSASB believes that a binding arrangement is broader than a contract or substantially the same as a contract. The explanation provided in BC24 of ED 70 appears to support the initial claim that a binding arrangement is broader. The narrative clearly states that is it broader and then appears to contradict that position.

Parties to the Transaction

We recommend minor edits with regard to the parties to the transaction to create symmetry and consistency. Some of our suggested edits also are intended to support the recommendations for binding arrangements. As noted in paragraph AG22 of ED 70, a third-party beneficiary is not a party to the binding arrangement.

> A purchaser is a party to the binding arrangement that pays for goods or services that are an output of an entity's activities under a binding arrangement, either for its own consumption or for transfer to a third-party beneficiary (paragraph AG25 provides additional guidance). A customer is a type of a purchaser.
>
> A customer is a party to the binding arrangement that has contracted with an entity to obtain goods or services that are an output of the entity's activities in exchange for consideration for its own benefit.
>
> A third-party beneficiary is an entity, household or individual who will benefit from a binding arrangement ~~transaction made~~ ~~between~~ ~~two other parties~~ by receiving goods, services or other assets specified in the binding arrangement (paragraph AG22 provides additional guidance). A third-party beneficiary is not a party to the binding arrangement.

Inconsistent Wording and Location of Materials

Owner's Contributions and Distributions

We recommend that interactions with owners be identified consistently as out of scope in all three Exposure Drafts. The text of the proposed pronouncement in ED 70 indirectly implies that transactions with owners would be out of scope because owners are not customers. However, there are explicit exclusions in paragraph 3b of ED 71 that could lead a stakeholder to wonder why this exclusion is explicitly scoped out of ED 71 but not scoped out of ED 70. Furthermore, ED 72 addresses this exclusion in a third way by including explanatory materials in paragraph 6 (which we believe are more suitable for the Basis for Conclusions). However, this exclusion also is not listed as an explicit scope exclusion in paragraph 5 of ED 72.

Transfer

As discussed in the scope section, a difference has been drawn between transactions that arise from binding arrangements in which there is a transfer of distinct goods or services that should be accounted for as performance obligations and those in which there is no transfer that should be accounted for as present obligations. Therefore, the major focus for scope difference refers to *transfers* of distinct goods or services. We recommend that the IPSASB consider a different term for transactions in the scope of ED 71 than *transfers with present obligations*. If the only substantive difference between present obligations and performance obligations is that the former does not require a transfer, it would appear incongruous to identify the term used for such a transaction, as a *transfer*.

Wording Consistency

As noted in the scope section, we understand that there is a need to discuss different types of revenue transactions, but the interplay between them is not clear. Reference to the type of transaction in ED 71 makes the identification of the guidance rather challenging as the following various terms are used: *transactions without performance* obligations (most prevalent form), revenue without *performance obligations* (paragraph 57 of ED 71), and *revenue transaction without performance obligations but with one or more present obligations* (paragraph 59 of ED 71). We would recommend relying on a single term for each type of transaction and consistently using it across the document to avoid confusing a stakeholder into concluding the narrative relates to different transactions.

Location of Guidance

While we recognize that it may be an issue of style and choice regarding the location of guidance in the proposed pronouncement and AG, there are several items included in paragraphs 92, 93, and 96 of ED 71 that can be considered Basis for Conclusions paragraphs as they are providing explanatory materials for the IPSASB's conclusions (indicated by the term *because*).

CONCEPTUAL CONCERNS

Scope

As noted in both prior sections, we recognize that the IPSASB drew a scope boundary between ED 70 and ED 71 based on whether a transaction includes a performance obligation or not. In this effort, the IPSASB incorporated into ED 70 transactions that include PSPOAs. We applaud the IPSASB for taking the approach of broadening the IFRS 15 perspective of how performance obligations work and taking into account prevalent transactions in the public sector. However, we also believe that the IPSASB stopped one step short by drawing an arbitrary distinction between performance obligations and present obligations. As noted in the technical section, the guidance for performance obligations and present obligations is almost identical.

The only distinction made between transactions with performance obligations and transactions with present obligations is whether the entity has an obligation to *transfer* a distinct good or service. We believe this is a difference without a distinction.

If the entity enters into a binding arrangement in which the terms and conditions require that entity to transfer goods or services to the citizenry, the transaction is considered to be in the scope of ED 70. However, if an identical binding arrangement provides instead that the entity carries out internal programs, construction of capital assets for its own use, or research that is not transferable to other parties, the transaction is not considered a performance obligation. Nevertheless, a present obligation does result in a liability that the governmental entity should discharge through the purchase of goods or services for its own benefit, through specified actions, or by incurrence of allowable costs. Based on our interpretation of the provisions, this means that the expansion of performance obligations was not sufficiently broad to address prevalent issues about performance obligations in the public sector. Specifically, it creates an artificial bifurcation of certain transactions generally referred to as grants. For example, a research grant with identical goals and outcomes can be in the scope of ED 70 if the intellectual property rights that result from the research are exclusively provided to either the purchaser or a third-party beneficiary. However, if the intellectual property rights that result from the research can be retained by the governmental entity for publication or internal use, then the identical transaction is considered in the scope of ED 71.

Additionally, this approach can create unnecessary complexity by bifurcating a single grant transaction between ED 70 and ED 71. It is not uncommon for operating grant transactions to establish that the grant recipient government transfer goods or services to the citizenry and that the grant terms and conditions earmark a portion of the stated contract price to reimburse for administrative costs. Following the proposed guidance, the transfer of goods and services would be accounted for in the scope of ED 70 while the administrative costs would be accounted for in the scope of ED 71. We question whether the benefits to financial statement users (we could not identify any benefits) justify the cost of this added complexity.

Furthermore, we do not support the conclusions reached in paragraph 27 of ED 72 that states, "performance obligations of the transfer recipient do not include activities that a transfer recipient must undertake to fulfil a binding arrangement unless those activities transfer a good or service to a third-party beneficiary." As previously noted, it is not uncommon for "grant agreements" to include an earmark amount that the transfer recipient uses to reimburse administrative costs incurred in the satisfaction of its performance obligations. Those costs generally do not represent "set up activities." Those costs generally are the result of administrative and reporting burdens added as a result of entering into those types of transactions; for example, quarterly reporting or minimum wage requirement monitoring for contractors. Generally, an entity would not incur those types of costs if the transaction is not a three-party arrangement (nonreciprocal). In other words, we believe this is an issue highly reflective of the governmental environment. We continue to believe that performance obligations in the governmental environment should be considered to be broader than *transfers* of goods or services.

Restrictions and Conditions

We also disagree with the proposals put forth in ED 71 regarding restrictions. IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers),* establishes a different recognition methodology for transfers that include conditions with restrictions. While we recognize that transactions including conditions are now identified as transactions including performance obligations (and recognized as part of the PSPOA model), we are uncertain about the treatment of transactions that include restrictions. We believe that this is yet another critical aspect relevant primarily to the public sector—when one tier of government provides resources to other governments with an expectation that those resources only be spent for the specified purposes but without performance obligations or present obligations. As previously noted, we do not concur with the IPSASB creating a difference without a distinction between performance obligations and present obligations; the characteristics are not sufficiently different, and the accounting is nearly identical. However, we are more troubled by the potential conclusion that purpose restrictions also are considered present obligations. During deliberations, it became obvious that some Board members supported the conclusion that transfers with restrictions should be considered present obligations because, in their minds, it supported *proper matching*. Also noted during deliberations was that the concept of matching has not been adopted as part of the conceptual framework in any standards-setting body since the 1970s. Nevertheless, we believe that transfers that only include restrictions do not represent liabilities because, in our view, there is no required action that the governmental entity is required to take in order to be entitled to the resources. This difference is critical in the governmental environment. If the IPSASB carries forward this position, we would recommend that the IPSASB provide a rationale for the change in perspective from IPSAS 23.

Time Requirements

We believe that the IPSASB missed an opportunity to address a critical issue in the governmental environment—that is, time requirements. Through the development of the conceptual framework, the IPSASB concluded that there are economic phenomena that should be best addressed in standards setting as noted in paragraph 5.4 of Chapter 5 of the IPSASB's conceptual framework as follows:

> In some circumstances, to ensure that financial statements provide information that is useful for a meaningful assessment of the financial performance and financial position of an entity, recognition of economic phenomena that are not captured by the elements as defined in this Chapter may be necessary. Consequently, the identification of the elements in this Chapter does not preclude IPSASs from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of an element identified in this Chapter (hereafter referred to as "other resources" or "other obligations") when necessary to better achieve the objectives of financial reporting.

As we listened to the IPSASB's deliberations in December 2018 in Kuala Lumpur regarding time requirements, we agreed with the conclusion that time requirements are not liabilities (present obligations). However, the IPSASB did not continue its deliberations about whether this economic phenomenon prevalent in the public sector should be considered as a recognition attribute and, if so, what element would best reflect this important attribute. We believe that time requirements are the most relevant application of *other resources* or *other obligations*, which are elements of financial statements currently not defined in the conceptual framework but are *neither assets nor* liabilities.

We urge the IPSASB to reconsider this issue in light of its conceptual framework and to take into account an economic phenomenon that is characteristic of the governmental environment. The relationship between inflows and outflows in the private sector is derived from a profit motive. However, the lack of a profit motive in the governmental environment creates different types of relationships between inflows and outflows, including restrictions, conditions about the usage of inflows, and time requirements.

As noted, considering a government's ability to control all aspects of certain transactions (an economic phenomena), revenue may be significantly overstated or understated in a reporting period. For example, a government traditionally levies a tax on 1 January 20X1 for the current fiscal period for the operations of that period, further it then levies the same tax on 31 December 2021 for the 2022 fiscal period, but then returns to the traditional 1 January 2023 levy for 2023 fiscal period (this government' fiscal period is defined as January to December). Based on the IPSASB proposal, that government would recognize two years' worth of property tax revenue in fiscal year 2021 and no property tax revenue would be recognized in fiscal year 2022. We believe that users of financial statements would conclude that this outcome does not result in a fair presentation of the government's operations for the reporting period.

We do not believe that expenses should be matched to revenue (the matching principle); however, we strongly believe that certain transactions (such as the tax example) need to be reported in the appropriate reporting period to achieve a fair presentation by means other than an inappropriate use of a liability. The IPSASB addressed a solution for this economic phenomenon in the Basis for Conclusions of the Conceptual Framework (BC 5.56). We strongly believe that the use of the *other obligation* element of financial statements noted in that paragraph should be employed in this situation.

If the conclusion is reached that this economic phenomenon should not be reflected in the other obligation element, we urge the IPSASB to provide a rationale in its Basis for Conclusions that addresses why it chose not to apply the element introduced in BC 5.56.

Collectibility

Observing the IPSASB's deliberations on collectibility also provided insight about its desire to adopt the conclusions reached by the IASB in the context of revenue recognition from contracts with customers. However, we disagree with the overall conclusion reached, which limits the transactions accounted for under ED 70 to only transactions that meet a *probable* threshold of collectibility. As expressed by some members, in the public sector, it is not unusual for a government to purposefully engage in revenue transactions with purchasers with an understanding that there may be limited or no attempt to collect the amount to be charged. This especially is the case when the service provided is essential to life, such as the provision of potable water. We believe that there is a critical difference in the public-and private-sector environments that needs to be reconsidered. As the IPSASB is aware, in the public sector, there is a public-purpose motive, and in the private sector, there is a profit motive. It is unreasonable to expect that a private-sector entity would purposefully engage in a contract with a customer when that entity does not expect the customer to be able to pay for the transaction. Furthermore, it is generally observable that for circumstances in which there is a higher collectibility risk, the entity would charge a contract price premium to address that risk. Conversely, governments primarily exist to fill in the gaps of services that private-sector entities in many cases choose not to provide, provide affordable services where a private-sector entity would charge a high risk premium, or provide services that could create monopolies in the private sector. Governments engage in these activities because these services are considered essential, and governments seek to recover the cost of providing these services either through taxes when the service is provided broadly, or through fees when the service is more individually targeted. Nevertheless, governments provide these services without regard to a "customer's" willingness or ability to pay. We believe this is a relevant environmental concern that is a hallmark characteristic of governments, and as such, we do not concur with creating two separate recognition approaches in the same manner as the private-sector approach.

We recognize that there are limited circumstances in which collectibility could be useful in identifying sham transactions. For example, two governmental entities enter into a binding arrangement in which the transaction amount is based solely on variable amounts that is defined in the context of cash flows becoming available to the purchaser, but the governmental entities enter the arrangement knowing that there would not be cash flows that met the provisions of the arrangement. In that case, it is questionable that the transaction has economic substance. We believe these circumstances are adequately addressed in the proposals for binding arrangements that have economic substance because in this example, the arrangement does not have economic substance

Recognition Concerns

Enforceability

Paragraphs AG13–AG24 of ED 70 propose that enforceability be a key characteristic of a binding arrangement and therefore the enforceability of the rights and obligations between the parties of the transaction establish the basis for the existence of a performance obligation. It is notable that in the development of IFRS 15, the IASB considered enforceability more broadly. While the IASB concluded that enforceability is a relevant characteristic of performance obligations, it is not necessary for some promises to be enforceable to be considered performance obligations. This conclusion was primarily based on the IASB decision to recognize implied promises or customary business practices of providing goods and services to a customer as performance obligations. The IASB's explanation is partially provided in paragraph BC87 of IFRS 15 as follows:

> . . . .The boards noted that in many cases, all of the promised goods or services in a contract might be identified explicitly in that contract. However, in other cases, promises to provide goods or services might be implied by the entity's customary business practices. The boards decided that such implied promises should be considered when determining the entity's performance obligations, if those practices create a valid expectation of the customer that the entity will transfer a good or service (for example, some when-and-if-available software upgrades). The boards also noted that the implied promises in the contract do not need to be enforceable by law. . . .

We agree with the conclusion that enforceability is a relevant aspect in the context of revenue and expense recognition. However, we do not believe that enforceability should be considered an *absolute* because of specific governmental environment issues, which expand well beyond customary business practices of promising additional goods or services that are not specifically identified in a contract. While the IPSASB considered sovereign rights (paragraph AG18), it is not clear what are the effects, if any, of those sovereign rights in the context of enforceability.

We believe that to reflect the governmental environment, it would be more appropriate to express enforceability as a *rebuttable presumption* that can later on be disproved. This approach allows for consideration of specific governmental circumstances. For example, it has been noted that governments with sovereign rights can overcome legal liabilities in a court of law. Additionally, our research has not shown that instrumentalities of a sovereign government have recourse over their sovereign government. This issue can be challenging when considering transactions with PSPOAs (three-party arrangements). For example, consider the case in which a national government enters into a binding arrangement with an instrumentality in its jurisdiction (a municipality) for that municipality to transfer distinct goods or services to third-party beneficiaries. The municipality performs its obligation under the binding arrangement, but the national government does not fulfill its promise. We have not been able to identify any body of law that demonstrates that the municipality can enforce a right to consideration against the national government; nor have we been able to identify any mechanism that allows the municipality to seek redress in a court of law as it is an instrumentality of a sovereign government. The IPSASB notes in paragraph AG22 of ED 70 that ". . . for these three-party arrangement to be within the scope of this [draft] Standard the purchaser must have the ability to force the entity to deliver goods or services to the third-party beneficiaries. . . ." However, the IPSASB is silent with regard to the entity's right to enforce consideration for its performance against the purchaser.

We agree with the interrelation proposed in the diagram introduced in paragraph AG14 of ED 70; however, we believe that this interrelation should not be intertwined with enforceability. In other words, we believe that the relationship between the rights of one party and the obligations of the other party is the essence of a performance obligation; however, we do not agree that this interdependence is enforceability. That is because the parties to the transaction are not always on an equal footing as would be the case in a commercial transaction between a business and a customer. Rather, in the public-sector environment, that interdependence of rights and obligations may not always be *legally* enforceable (or enforceable through other means). The IPSASB's conceptual framework refers to them as nonlegally binding obligations in paragraphs 5.18-5.26 of Chapter 5. Some of those obligations may be better referred to as moral or constructive obligations.

We recommend that the IPSASB consider enforceability more in the context of the governmental environment in its development of a final pronouncement and to de-couple the notion of enforceability from rights and obligations that are interdependent.

Stand-Ready Obligations

The IPSASB's conceptual framework includes in paragraph BC5.23 a description of stand-ready obligations as conditional obligations that "require an entity to be prepared to fulfill an obligation if a specified uncertain future event outside the entity's control occurs (or fails to occur)." Furthermore, in paragraph BC5.25, the IPSASB concluded that the conceptual framework was not the appropriate vehicle to resolve whether stand-ready obligations meet the definition of a liability. In that narrative, the IPSASB alludes to social benefits as an example of stand-ready obligations. Paragraph BC42 of IPSAS 42, *Social Benefits,* provides an explanation for the rationale to not consider social benefits (presumably a stand-ready obligation) a liability as follows:

> The IPSASB noted that social benefits are provided where a social risk has occurred, for example an individual has become unemployed or an individual has reached retirement age. The IPSASB concluded that social risks do not involve performance of an obligation by the individual and, consequently, the performance obligation approach would not be appropriate for recognizing and measuring social benefits. For similar reasons, the IPSASB is not proposing to adopt the performance obligation approach to non-exchange expenses for universally accessible services and collective services.

In this paragraph, the IPSASB also explains that for this reason, the conclusions ultimately reached in its *Collective and Individual Services (Amendments to IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets)*, are to not recognize provisions (liabilities) for transactions that effectively include stand-ready obligations to provide goods, services, or financial resources to segments of the population that are either at risk or for which the services are broadly provided. Paragraph BC9 of Amendments to IPSAS 19 states that:

> In the CP [Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses,* issued in August 2017], the IPSASB noted that "a public sector entity may have a number of future obligations relating to the provision of universally accessible services and collective services. Such obligations are an aspect of the ongoing activities of governments and other public sector entities; however, only present obligations give rise to liabilities. The expected future sacrifice of resources does not of itself mean that there is a present obligation. Therefore, the IPSASB is of the view that universally accessible services and collective services do not give rise to obligating events and therefore liabilities or expenses do not arise prior to the delivery of those services to beneficiaries.

We believe that these services, such as public safety and public education, can be best characterized as *public-purpose obligations*; that is, these services result from the public-purpose mission of the governmental entity and if a liability is recognized for public-purpose obligations, the entire governmental public-purpose mission can be considered a liability. We do not believe that this information would provide any useful information to users. However, we believe that those public-purpose obligations meet the IPSASB's definition of stand-ready obligations. For this reason, we are concerned about the IPSASB's conclusions reached in ED 70, ED 71, and most importantly in ED 72 with regards to stand-ready obligations.

In paragraph 25(f) of ED 70, an example of a performance obligation is: "providing a service of standing ready to provide goods or services (for example paramedics on a site at an athletic competition organized by a community group)." We disagree with this approach. On one hand, the provision of these types of services, such as paramedics on site and fire or police protection for events, generally is not provided in an exchange transaction for fees for services. Rather, these types of services are generally funded through taxes and provided as collective or individual services. Therefore, only the outflow is relevant and would be in the scope of IPSAS 19. If the government charges fees for dedication of personnel for these types of events, the performance obligation is the availability of that personnel on the site, not the stand-ready obligation to perform. Similar examples are included in ED 71.

On the other hand, more challenging are the examples provided in paragraph 28(e) of ED 72 because they entail expenses, and we question the consistency of this conclusion in the context of the IPSASB Amendments to IPSAS 19. As explained above, we believe that collective and individual services are stand-ready obligations and agree with the conclusion that they are not recognized as liabilities. The example provided in ED 72 could open the door to the conclusion that all public-purpose obligations should be recognized as liabilities.

Given the conclusion of the IPSASB with regards to IPSAS 42 and Amendments to IPSAS 19, we recommend the Board to consider providing a rationale for concluding in these three projects that stand-ready obligations are liabilities. We believe that this issue should be considered broadly in the viewpoint of the government's mission as a whole. We believe that careful consideration should be given to stand-ready obligations as the entire public-purpose mission can be construed as a liability if stand-ready obligations are determined to be liabilities.

Conclusion

Thank you again for the opportunity to comment on the IPSASB Exposure Drafts. If you have any questions regarding this response, please contact me by email at drbean@gasb.org, or Paulina Haro at (203) 956-3449 or by email at pharo@gasb.org.

Sincerely,

David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board