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October 31, 2020

RE: EXPOSURE DRAFTS – 70 (REVENUE WITH PERFORMANCE OBLIGATIONS); 71 (REVENUE WITHOUT PERFORMANCE OBLIGATIONS); AND 72 (TRANSFER EXPENSES)

Thank you for the opportunity to provide our comments on the International Public Sector Accounting Board's (IPSAB) suite of exposure drafts regarding revenues with and without performance obligations, and transfer expenses. The Board is commended for its hard work developing this robust guidance, which will make a significant contribution to the quality and consistency of public sector financial reporting.

Our response to your specific matters for comment on these exposure drafts are outlined below. We would like to bring two particular areas to the Board's attention:

1. The exposure drafts collectively propose a significant disclosure burden on entities. Entities will be challenged to meet the disclosure requirements in each of these proposed standards in a reasonable manner without confusing users. We would recommend that the Board review these disclosure requirements, and consider a principal of what is material, and significant in terms of information to users.
2. Entities will be challenged in the implementation of these standards to navigate scope. While we support the definition of scope for each individual standard, we believe a decision tree or table should be added to each to show how specific transaction types or characteristics require the application of one standard or the other.

Best regards,

Bailey Church, CPA, CA, CIA
Chair, Global International Public Sector Accounting Standards Working Group
KPMG LLP

EXPOSURE DRAFT 70 - REVENUE WITH PERFORMANCE OBLIGATIONS

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?**

   Yes, we believe that the definition of scope of this standard is generally clear, and consistent with the parameters of scope defined in IFRS 15. To enhance the definition of scope, we would suggest that IPSASB include a decision tree or a table in the scoping section that illustrates which section applies based on the characteristics of different revenue streams.

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?**

   Yes, we support IPSASB's decision to not define these terms for the reasons cited in the Basis of Conclusions.

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?**

   Yes, we agree with the application guidance cited, and the discussion regarding the rebuttable presumption that the transaction price is wholly related to the transfer of goods or services. We support the view that where this assumption does not hold, different revenue recognition guidance should be applied as that component of the transaction is fundamentally different in economic substance from the exchange portion.

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?

Yes, we support the alignment of disclosure requirements with those established in IFRS 15. While these requirements exceed those in IPSASB's existing revenue guidance, we are of the view that additional disclosure is appropriate given the substantial judgements and risks required to apply this section.

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?**

   Yes, we support these additional disclosure requirements. The provision of goods and services to parties who may not have the ability or intent to pay is core to the fulfillment of mandate of certain public sector entities. The disclosure is appropriate to provide transparency to financial statement users.

EXPOSURE DRAFT 71 - REVENUE WITHOUT PERFORMANCE OBLIGATIONS

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?**

   Yes, we support the view that a specified activity and eligible expenditure give rise to present obligations in the context of this section. ED71.14 references 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." One point for clarification is what the "equivalent means" would comprise. For example, would this include the concept of promissory estoppel, which is defined in Black's Law Dictionary as "the principle that a promise made without consideration may nonetheless be enforced to prevent injustice if the promisor should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to his or her detriment."?

2. **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?**

Yes, this flowchart provides a clear illustration of the process to determine revenue recognition alternatives. In terms of the first decision point in the chart, "Does the inflow give rise to an item that meets the definition of an asset?" would it be assumed that an inflow which satisfies a present obligation of the entity would be considered to meet the definition of an asset? Such an inflow which reduces an existing obligation would generally be considered a revenue item, as it increases the economic resources of the entity.

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 concur with the concept that a transfer recipient would recognize revenue without performance obligations but with present obligations when (or as) the transfer recipient satisfies the present obligation. The exposure draft explains this concept clearly, though additional examples in the standard itself would enhance application. IPSAS has included very useful examples in the Basis for Conclusions, which would add to the standard when issued.

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?**

   Yes, we believe that sufficient guidance exists in this proposed standard to identify and determine how to allocate the transaction price between different present obligations.

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?**

   Yes, we support the application of IPSAS 41 for the measurement of receivables within the scope of this proposed Standard.

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?**

   Yes, we believe that the disclosure requirements in this proposed standard will provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations. In particular, qualitative and quantitative information regarding binding arrangements with present obligations, and significant judgements made in applying the standard are useful disclosures. The disclosure requirements of transfer recipients in paragraphs 131 and 132 are also useful disclosures. It is our view that the resulting disclosures will be very robust and support IPSAS's objectives for this standard.

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?

   Yes, we support the structure and approach of the ED with respect to broad principles and guidance.

EXPOSURE DRAFT 72 - TRANSFER EXPENSES

1. **The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15. Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?**

   Yes, the scope of this proposed standard is clear. To further enhance the scope, we would propose reiterating the definition of a transfer expense at the start of the scope section in paragraph 3.

2. **Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations? If not, what distinction, if any, would you make?**

   Yes, we support this distinction, consistent with the principals applied in Exposure Drafts 70 and 71.

3. **Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?**

   Yes, we support this view.

4. **This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:**

   (a) A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and

(b) A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach.

The rationale for this decision is set out in paragraphs BC16–BC34. Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?

Yes, we agree with the recognition and measurement requirements for transfer expenses with performance obligations, and believe they have been effectively communicated in the Basis for Conclusions document.

5. **If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.**

   From our experience, we anticipate that many transfer providers will be challenged with the availability of reliable information to demonstrate the ongoing monitoring required to account for a transfer expense as one with performance obligations. This will likely result in several transfer arrangements being accounted for as transfer expenses without performance obligations. Entities will have an incentive to enhance monitoring practices where performance obligations are believed to exist, which will strengthen financial management frameworks.

6. **This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:**
   (a) A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and
   (b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up.

   Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations? If not, how would you recognize and measure transfer expenses without performance obligations?

   Yes, we agree with these recognition and measurement requirements for transfer expenses without performance obligations.

7. **As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, Revenue without Performance Obligations, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue. Do you agree that this lack of symmetry is appropriate? If not, why not?**

   Yes, we believe this lack of symmetry is appropriate given the accountabilities of the transfer provider compared to those of the transfer recipient. In effect, the transfer provider has expended economic resources for transfer expenses without performance obligations once the present obligation exists to provide those resources, or it no longer has control of the resources. It can no longer use those economic resources for other purposes. From an accountability perspective, the transfer provider should report this expense as soon as these recognition points occur. The transfer recipient, on the other hand, has not earned revenue from a transfer without performance obligations until it has satisfied those obligations. Recognizing transfer revenue at an earlier point, matching the expense recognition by the transfer provider would misstate the transfer recipient's reported results.

8. **This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal? If not, why not? What alternative treatment would you propose?**
   Yes, we support this view. If the transfer provider determines that it has a present obligation to transfer resources, then this liability should be recognized regardless of when the appropriation is authorized. The source of funding does not, in and of itself, determine the existence of the obligation to transfer resources.

9. **This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations, to the extent that these are appropriate. Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,**
   (a) Do you think there are any additional disclosure requirements that should be included?
   (b) Are any of the proposed disclosure requirements unnecessary?

   Yes, we agree that the disclosure requirements in this proposed standard are appropriate. Certain disclosure requirements will be more relevant to certain entities, based on the nature and amount of their transfers. Each entity should be able to determine what disclosure requirements are applicable to their reporting based on significance, and the quality of information provided to users.