International Public Sector Accounting Standards Board
Mr Ian Carruthers, IPSASB Chair
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Dear Mr Carruthers, dear Mr Smith,

Exposure Draft 71 'Revenue without Performance Obligations'

We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on Exposure Draft 71 'Revenue without Performance Obligations' on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Exposure Draft. "PricewaterhouseCoopers" or "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

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

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

Exposure Draft 71 'Revenue without Performance Obligations' updates IPSAS 23 'Revenue from Non-Exchange Transactions (Taxes and Transfers)' to provide recognition and measurement requirements for revenue transactions without performance obligations. ED 71 is particularly welcome as it will address practical issues in accounting for revenue from non-exchange transactions.

The subject-matter is complex. We therefore strongly recommend providing sufficient practical guidance and illustrative examples in order to further enhance consistency in application of the proposed approaches.

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

Yours sincerely,

PricewaterhouseCoopers

PricewaterhouseCoopers

Responses to the questions in IPSASB's Exposure Draft 71 'Revenue without Performance Obligations'

- **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?

We noted 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. According to ED 71 for a present obligation to exist, it is necessary that an outflow of resources will be probable as a result of the agreed obligations being completed or incurred by the transfer recipient. Whether an outflow is probable will be based on the transfer provider's ability to enforce the fulfilment of agreed obligations by the transfer recipient.

However, for the transfers with present obligations (para 45-50) the IPSASB should clarify how obligations to perform a specified activity meet the definition of a liability in the IPSAS CF. For example, as it is worded currently it appears that where an entity has to act in a particular way, it has a present obligation for which it must recognise a liability and defer revenue recognition (even if there is no performance obligation and no refund obligation under the terms of the binding arrangement). Further we recommend that the IPSASB clarifies at what point and whether the arrangement gives rise to an asset to the transferor.

IPSASB should also clarify the interaction between the scope of ED 71 and IPSAS 19, as it is not clear whether an entity in the scope of ED 71 should also apply IPSAS 19 or be prohibited from doing so. ED 71 para 3(h) scopes out rights and obligations in the scope of IPSAS 19. However, there are various references to IPSAS 19, e.g. in AG23: 'A transfer recipient would need to consider whether such a public announcement gives rise to a non-legally binding (constructive) obligation under IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.'

In contrast to ED 71, IPSAS 19 'Provisions, Contingent Liabilities and Contingent Assets' requires that a provision be recognised when the entity has a present obligation (legally binding or non-legally binding – constructive obligation) as a result of past events, it is probable (more likely than not) that a transfer of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Under ED 71, the term "present obligations" applies only to legally binding obligations. In case the terminology of present obligations in ED 71 might be extended to encompass constructive obligations too, we suggest sufficient application guidance to be developed in this area.

- **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?

We agree that the flowchart clearly illustrates the process to determine whether revenue arises and that the definitions of the assets and liabilities in the IPSAS conceptual framework are relevant to the assessment of the present rights and obligations and determine the revenue recognition process under ED 71. However, we think that minor changes to the flowchart as reordering the starting point whether the transaction or component thereof is within the scope of ED 70 or ED 71, and then show the steps applicable to ED 71 could further improve the current presentation. Also, please refer to our comments of SMC1 with respect to providing clarity on the distinction between ED 71 and IPSAS 19 scope.

- **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?

Under the IFRS equivalent IAS 20 'Government Grants and Disclosure of Government Assistance' revenue is recognised in the statement of financial performance on a systematic basis over the useful life of the asset financed by the grant or as an offset to the depreciation expense. We agree with the IPSASB that mirroring this accounting treatment would conflict with the IPSASB Conceptual Framework when no conditions are linked to the grant as revenue would be recognised over time while no present obligations exist. As a result, ED 71 leaves no space for considerations of a potential "present obligation" related to the continued use of an asset financed by a transfer. It would however provide useful information about the period over which the resources will be used. We recommend that the IPSASB considers how to resolve this issue, including through possible additional disclosure requirements.

We do not agree that the draft Standard provides sufficient guidance for the users to determine when a present obligation could be satisfied "over time". First of all, ED 71 does not include cross-reference to ED 70 para 34 (if that guidance is relevant in the context of ED 71) and does not define the terms of "over time" and "point in time". The concept of present obligation that could be satisfied "over time" is new and may not be understood without additional application guidance and practical examples of the cases where such "over time" recognition might be appropriate.

In addition, there is a potential conceptual issue with the definition of a liability in the IPSAS conceptual framework. We would welcome clarification on whether the requirement to recognise revenue "over time" is aligned to the definition of a liability and the IPSAS 19 requirements for recognition and measurement of provisions for the present obligations.

- **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?

We do not agree that sufficient guidance exists in this [draft] Standard to identify and determine how to allocate the transaction price between different present obligations. The basis of allocation of the transaction price should be further clarified in ED 71. The IPSASB could amend the concepts of ED 70 para 77-79 to transactions without performance obligations, if applicable. The IPSASB should propose a clear principle of allocation, in order to enhance the consistent application of the requirements for the binding arrangements with multiple present obligations, supported by practical illustrative examples of the most common arrangements rather than improving only the respective application guidance of ED 71 on the matter. Also, specific examples could address situations where the allocation involves a significant degree of judgment (e.g. if one activity follows the other but the funding for each is less than 100%).

- **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?

We agree with IPSASB's proposal that receivables within the scope of this [draft] Standard should be subsequently measured in accordance with the requirements of IPSAS 41, 'Financial Instruments'.

As explained in paragraphs AG140(b) and AG141 of ED 70, some receivables arising from transactions in the scope of ED 70 may not be financial instruments. The same applies to the binding arrangement assets and other assets arising from transactions in the scope of ED 71. In our view, such assets should be treated in a similar way to contract assets under IFRS 15: outside the scope of the financial instrument standard, but subject to certain requirements in the financial instrument standards. The (draft) Standard should amend the scope of IPSAS 41 to say that binding arrangement assets (where the right to payment is subject to conditions other than the passage of time) are outside the scope of IPSAS 41.

We believe that the scope of ED 70, ED 71 and IPSAS 41 should be drafted so as to make clear which standard or specific requirements of a standard should be applied in case of assets in the scope of ED 70 and ED 71: (i) that arise from contracts and meet the definition of a financial instrument; (ii) that arise from binding arrangements rather than contracts; and (iii) other assets, being those that do not arise from contracts or binding arrangements.

- **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?

We concur with the statement that the IPSASB's proposed disclosure requirements provide users with sufficient, reliable and relevant information about revenue transactions without performance obligations. We agree that it is a useful start to look to ED 70 to determine the appropriate disclosures. However, we recommend that the IPSASB considers the information needs of users to determine the appropriate amount of disclosures. We also refer to our response to the Specific Matter for Comment 3.

- **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?

We concur with the approach taken in ED 71, and we support the decision of the IPSASB to establish broad principles for the recognition of revenue from transactions without performance obligations. The structure and broad principles are logically set out and are consistent with ED

72. The recognition and measurement requirements should be consistent with the IPSAS conceptual framework and reflect the substance of the transfers rather than their legal form.