



ED 181

Comments due by 1 October 2020

ACCOUNTING STANDARDS BOARD

INVITATION TO COMMENT ON THE PROPOSED INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD ON REVENUE WITH PERFORMANCE OBLIGATIONS (ED 181)



ED 181

Commenting on this Exposure Draft

The Accounting Standards Board (the Board) seeks comment on the Exposure Draft of the proposed International Public Sector Accounting Standard on *Revenue with Performance Obligations* (ED 181).

Comment received on this Exposure Draft will be used in formulating a response to the IPSASB. Comment should be submitted in writing so as to be received by **1 October 2020**. E-mail responses are preferred. Unless respondents to the Exposure Draft specifically request confidentiality, the comment is a matter of public record once the pronouncement has been issued. Comment should be addressed to:

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Background to the project

Project rationale

The International Accounting Standards Board (IASB[®]) published the International Financial Reporting Standard on *Revenue from Contracts with Customers* (IFRS 15[®]), which provides a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 replaced the International Accounting Standards on *Construction Contracts*[®] and *Revenue*[®] and related IFRS Interpretations[®].

The public sector has revenue transactions that are similar to those of the private sector. For example, revenue from providing goods and services for consideration. The International Public Sector Accounting Standards Board (IPSASB) issued ED 70 on *Revenue with Performance Obligations* to supersede the International Public Sector Accounting Standards on *Revenue from Exchange Transactions* (IPSAS 9) and *Construction Contracts* (IPSAS 11). ED 70 is aligned with IFRS 15 and extends the revenue recognition approach to include transactions with performance obligations, including those where the ultimate beneficiary is a third party.

Accounting for revenue in the public sector

IPSAS currently distinguish revenue transactions based on whether there is a direct exchange of approximately equal value by the entity in return for the resources received or receivable. The accounting requirements therefore follow from whether revenue transactions are exchange or non-exchange transactions.

The IPSASB issued a Consultation Paper on *Accounting for Revenue and Non-exchange Expenses* in 2017. This Consultation Paper was driven by the need to align existing IPSAS on revenue to IFRS 15. As IFRS 15 recognises revenue based on the satisfaction of performance obligations, views were requested about whether (a) IPSAS 9 and IPSAS 11 should be aligned to IFRS 15, and (b) whether a performance obligation approach should be adopted for non-exchange expenses.

Based on feedback received, the IPSASB decided to revise IPSAS 9 and IPSAS 11 to outline accounting requirements for “transactions with performance obligations”. The IPSAS on *Revenue from Non-exchange Transactions (Taxes and Transfers)* would be retained and updated to deal with “transactions without performance obligations”. The change in approach means that transactions from a revenue perspective are no longer defined as “exchange” or non-exchange”, but rather as transactions “with performance obligations” or “without performance obligations”. This change towards the recognition of revenue based on the satisfaction of performance obligations is called the “public sector performance obligation approach (PSPOA)”.

The IPSASB proposes in ED 70 that the standards-level requirements and guidance for revenue transactions in the public sector that have performance obligations, as defined in IFRS 15, should be aligned with the requirements and guidance in IFRS 15. The scope of



the proposed IPSAS is expanded compared to IFRS 15 to clarify that in the public sector, revenue transactions with performance obligations could involve the transfer of goods or services directly to the purchaser, or to a third-party beneficiary.

The need for consistent principles in accounting for revenue and expenses

As entities in the public sector often transact with one another, there is a need for either party to approach the accounting using consistent principles. For example, if one level of government is paying money to another level of government, the accounting principles applied for revenue and expenses should be consistent.

Two Exposure Drafts have been issued for revenue:

- ED 70 on *Revenue with Performance Obligations*.
- ED 71 on *Revenue without Performance Obligations*.

Given the need to apply consistent principles for revenue and expense transactions, the IPSASB issued ED 72 on *Transfer Expenses* to explain the application of the PSPOA to the last remaining area where guidance was needed, i.e. non-exchange expenses. Given the use of the PSPOA in ED 72, there are strong links with the principles in ED 70 and ED 71.

Impact of Exposure Draft in South Africa

Link between IPSASB and Standards of GRAP

The Board has a policy of aligning Standards of GRAP with IPSAS where this meets the ASB's mandate and strategic objectives. As the Standards of GRAP on *Revenue from Exchange Transactions* (GRAP 9), *Construction Contracts* (GRAP 11) and *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23) are based on the IPSAS equivalents, any change in the underlying IPSAS means that the Board would need to consider whether or not it should align with any new or revised IPSAS that is issued. Equally, because there is no existing Standard of GRAP on transfer expenses, the Board would consider whether this should be issued as a Standard of GRAP.

The work of the Board is driven by a three-year work programme. The work programme for 2021 to 2023 was published in December 2019. As the IPSASB will still take some time to issue the final IPSAS for revenue and transfer expenses, the Board decided not to add these projects to its work programme for 2021 to 2023. The consultation on the work programme for 2024 to 2026 will decide whether these projects should be initiated. Until such time as the Board issues revised Standards of GRAP, entities should continue to apply GRAP 9, GRAP 11 and GRAP 23.

The Secretariat of the ASB will continue to be involved in the international standard-setting process and contribute to the development of these projects at the IPSASB.



Which entities might be affected?

ED 70 deals with revenue with performance obligations. A performance obligation is a promise in a binding arrangement with a purchaser to transfer to the purchaser or third-party beneficiary distinct goods or services. Transactions that would typically be in the scope of ED 70 include the provision of goods and services in exchange for consideration, for example:

- electricity and water;
- professional fees paid to regulators; and
- healthcare provided at a public hospital.

As a result, ED 70 will affect entities that receive consideration to transfer goods or services in return to the purchaser, or to third-party beneficiaries.

Commenting on the Exposure Draft on *Revenue with Performance Obligations*

Due process and timetable

The Board invites comment on the proposals set out in this Exposure Draft from preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting. Upon the closure of the comment period, the Board will consider the comment received on the Exposure Draft. The comment received will be used to formulate a comment letter to the IPSASB.

Available materials

The IPSASB has developed an “At-a-Glance” document that outlines the high-level principles and concepts of ED 70. This can be accessed on the ASB’s website along with the other materials for the concurrent Exposure Draft:

A webcast is also available on the IPSASB’s website:
<https://www.youtube.com/watch?v=KkLGulCQ97k&feature=youtu.be>

Invitation to comment

Comment on this Exposure Draft is invited by **1 October 2020**. The Board requests that respondents express an overall opinion on whether the Exposure Draft, in general, is supported and to supplement this opinion with detailed comment, whether supportive or critical. Respondents are also invited to provide detailed comment identifying the specific paragraphs to which it relates, explaining the issue and suggesting alternative wording, with supporting reasoning, where appropriate.

There are a number of specific matters for comment on which the IPSASB would appreciate feedback. These are outlined below.



Specific matters for comment

The IPSASB would appreciate feedback to the following questions.

Specific Matter for Comment 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?

Specific Matter for Comment 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 a 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 to BC22.

Do you agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”? If not, why not?

Specific Matter for Comment 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?

Specific Matter for Comment 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?

Specific Matter for Comment 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



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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 to 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?

Other matters

As with any other Exposure Draft, comment on any other matter would be welcomed. Comment is most helpful if reference is made to a specific paragraph or group of paragraphs in your response.