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The International Public Sector Accounting Standards Board

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Submission via website

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Dear Ross

COMMENTS ON ED 70 ON REVENUE WITH PERFORMANCE OBLIGATIONS

We welcome the opportunity to provide comments on Exposure Draft (ED) 70 on *Revenue with Performance Obligations*. We support the initiative to update the existing IPSAS on revenue with the latest international developments.

The comments outlined in this response have been developed by the Secretariat of the ASB and not the Board.

General

We issued ED 70 on *Revenue with Performance Obligations*, ED 71 on *Revenue without Performance Obligations* and ED 72 on *Transfer Expenses* as a package of documents for comment locally. We arranged a series of education sessions (eleven), roundtable discussions (ten) and engagements with specific stakeholders (four) to solicit views from preparers, auditors, technical experts, academics, consultants, professional bodies and users.

The level of engagement on the documents and the feedback we received on the proposals was limited. This was due to the volume and complexity of the material published for comment. To improve the quality of the comments received in future, it would be helpful if the IPSASB considers constituents' time and ability to engage with the documents.

We also note that it may be useful for the IPSASB staff to consider releasing additional educational material to assist with the understanding of the principles in the EDs. We (and our stakeholders) found the At-A-Glance document and the video helpful but note that it only explained the concepts of the EDs at a very high level. It might be useful to produce additional

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videos on specific issues within the EDs - explained at a more detailed level - to help respondents understand the proposals.

Overall impressions of ED 70

We note the objective of the EDs is alignment of IPSAS to the principles of IFRS 15 on *Revenue from Contracts with Customers*. We note that because transactions in the public sector are more diverse than those in the private sector, it was necessary to develop two separate EDs on revenue. The starting point is alignment of ED 70 with IFRS 15 to replace the existing “exchange” revenue IPSAS (IPSAS 9 on *Revenue from Exchange Transactions* and IPSAS 11 on *Construction Contracts*). Many of the principles of ED 70 have been used in developing ED 71 and ED 72.

Our stakeholders noted the following key implications that the implementation of IFRS 15 had for the private sector:

- Revenue may be recognised at a point in time, or over time, which meant no changes for some entities and significant changes for others, either through accelerated or deferred revenue recognition.
- Revisions were needed to tax planning, debt covenants and performance plans.
- Revisions were needed to budgets, and budgeting processes and principles.
- Revenue and contracting processes needed reconsideration.
- New estimates and judgements were required, with new models developed to make these estimates.
- IT systems needed changes.
- Accounting processes and controls required revision.
- Extensive new disclosures were required in the financial statements which required new ways to record, manage and collate information.
- Communication with stakeholders was required so that they could understand the impact of the new standard.
- Significant use of consultants was required to ensure proper implementation and ongoing compliance with the standard.

Our stakeholders further noted that some years after the implementation of IFRS 15, the true benefit of the implementation still has to be quantified through various studies across the globe in comparison to the cost of the change-over and the key implications noted above.

IPSAS was developed because the public sector and private sector are different, and it was deemed necessary to distinguish the sectors for financial reporting purposes.

Given the above, we have two key concerns:

- (1) We are concerned about the impact of ED 70 to ED 72 on public sector resources, considering the implications that IFRS 15 had for the private sector. In our experience, and certainly in our jurisdiction, public sector financial and human resources are more constrained than in the private sector, and accounting and other systems and processes are far less sophisticated.

Stakeholders were of the view that these resources could rather be spent on improving the quality of information in financial statements produced by the existing requirements.

- (2) IFRS 15 was developed for commercial transactions in the private sector. We are therefore concerned that the principles in ED 70 to ED 72 arising from IFRS 15 are not necessarily appropriate for the public sector. We further question whether the requirements will provide useful information to the users in the public sector.

The *Conceptual Framework for General Purpose Financial Reporting in the Public Sector* stipulates that the users of general purpose financial reports are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read the financial statements, and to review and analyse the information presented with reasonable diligence. It should be borne in mind that, contrary to listed private sector financial statements that are often prepared for sophisticated institutional investors, a key user of public sector financial statements is "the man on the street" who seeks information about how tax money is used to improve a society.

We believe some of the requirements are overly complex and will result in a set of financial statements that "the man on the street" will find hard to understand.

Areas that we are particularly concerned about where we do not believe the IFRS 15 requirements are appropriate for the public sector, as discussed further in our comment letters on ED 70 to ED 72, include:

ED 70:

- The criteria for a binding arrangement in step 1, and specifically the criterion for it being probable that the entity will collect the consideration in relation to compelled transactions (see specific matter for comment 1 of ED 70).
- The guidance on transactions with components where the components cannot be separated (see specific matter for comment 3 of ED 70).
- The guidance on assessing an implicit price concession as part of variable consideration (see specific matter for comment 5 of ED 70).

ED 71:

- Assessing whether an entity has an asset with reference to the ED 70 "ability and intention to pay the transaction price" (see matter 2 in Annexure B to our comment letter on ED 71).
- The use of "transaction price" as in ED 70, especially for taxes (see matter 3 in Annexure B to our comment letter on ED 71).
- Disclosure requirements for transactions with present obligations that mirror transactions with performance obligations (see our response to specific matter for comment 6 of ED 71).

ED 72:

- The application of the public sector performance obligations approach to a small subset of transfer expenses (see our response to specific matter for comment 2 of ED 72).

- The guidance on modifications to binding arrangements (see our response to specific matter for comment 5 of ED 72).
- Disclosure requirements for transfers with performance obligations that mirror ED 70 (see our response to specific matter for comment 9 of ED 72).

We further note that both ED 70 and ED 71 propose to subsequently measure non-contractual receivables in accordance with IPSAS 41 on *Financial Instruments*. We foresee difficulties with applying private sector requirements to the public sector in this area (see our response to specific matter for comment 5 of ED 71).

Responses to the proposals in ED 70

Our comments on ED 70 are set out as follows:

- Annexure A – Responses to specific matters for comment
- Annexure B – Other significant issues
- Annexure C – Drafting and other comments

We noticed editorial amendments when reviewing ED 70 but have not included these in our comments. A final editorial review should be done once the text has been finalised.

If you have any questions regarding our responses, please feel free to contact me.

Yours sincerely



Jeanine Poggiolini
Technical Director

ANNEXURE A – RESPONSES TO SPECIFIC MATTERS FOR COMMENT

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?

We do not support the definition of binding arrangements and the guidance on the scope of the ED.

Definition of binding arrangements

We note that the definition of binding arrangements is specific to ED 70 to ED 72, and differs to the definition that is used elsewhere in IPSAS. Our comment relates to all three EDs.

We disagree that the definition of binding arrangements should require both enforceable rights and obligations for both parties to the arrangement. How a transaction arises should be distinguished from the characteristics of the transaction. At present the two ideas are linked, i.e.:

- how an arrangement arises, is governed, or enforced, e.g. contract, legislation or similar; and
- the characteristics of an arrangement, e.g. the rights and obligations in arrangements. In particular, we are of the view that whether there are rights and obligations for both parties, or one party has rights and the other an obligation is reflective of the characteristics of the transaction.

Combining these two ideas in the definition of a binding arrangement and using the existence or not of a binding arrangement to propose accounting could result in ultimate accounting outcomes which are not appropriate in all instances. Refer to our response to specific matter for comment 1 of ED 71 and issue 2 in Annexure B of our comment letter on ED 72.

We have the following comment related to the definition:

- The criteria (a) to (e) in paragraph 8 of ED 70 test whether the arrangement is a transaction that can be accounted for using the public sector performance obligation approach (PSPOA). Some of these criteria may need to be reworded for arrangements that do not arise from contracts, e.g. paragraph 8(a). See our response to specific matter for comment 5 below on difficulties we foresee with paragraph 8(e).
- We note that the ED uses the term "binding arrangement" instead of "contract" because not all entities are able to enter into contracts. Based on the definitions of the two terms, it appears there is a lower threshold for contracts than for binding arrangements. It is unclear why this was decided as one would expect the two definitions to be similar given the intention with changing "contract" to "binding arrangement".
- We note the IPSASB's reasons for expanding the model to not only apply to contracts, but question whether it may have been stretched too far for the 5-step model to work. The model

was designed for transactions arising from contracts that presumably clearly describe the rights, obligations and terms and conditions of the arrangement. We question whether the level of information needed to apply the PSPOA would be available when the arrangement arises from mechanisms other than contracts. In our jurisdiction, legislation and other statutory mechanisms would often not be specific enough to apply the PSPOA.

- Stakeholders noted that existing “exchange” arrangements may need to be re-engineered to meet the new definition of a binding arrangement. For example, information about goods or services that are promised are not necessarily specific, or the enforceability of the arrangement is not evident. Stakeholders with exposure to the private sector also noted that this was a consequence of IFRS 15. We do not think it is appropriate for accounting requirements to dictate how entities should contract.
- The implication of the definition that arrangements where, for example, one party has rights and another party has obligations would be excluded from “binding arrangements”, even when they arise from contracts, is inappropriate. The implication is that transactions that are in the scope of IFRS 15 would be excluded from the scope of ED 70. Certain transactions in IPSAS 9 or IPSAS 11 could potentially also be excluded from ED 70.
- The conclusion that major sources of government revenue (taxes and certain grants and transfers) do not arise from binding arrangements is inappropriate. We are uncomfortable with the perception this creates as it implies that these types of transactions are not “binding” or “not enforceable”, for example as stated in ED 71 paragraph 29. Although we agree with the conclusion that these types of transactions would be in the residual category in ED 71, we do not agree with how the conclusion is reached. These transactions should be in the residual category because they do not have performance obligations or present obligations (i.e. because of their characteristics), not because they do not arise from “binding” or “enforceable” arrangements.
- A potential implication of entities concluding arrangements in the ED 71 residual category are not “binding” or “not enforceable” is that entities could apply cash accounting. This would be as a result of the perception that an arrangement that does not meet the ED 70 definition of binding arrangement is not “binding” or “not enforceable” and therefore an entity has no asset before cash is received. This implication could apply to transactions where a receivable is recognised in advance of receiving cash under existing IPSAS.
- The definition is difficult to understand where one arrangement results in a transaction with components. A part of the consideration is for goods and services (i.e. a performance obligation in ED 70), and a part of the consideration is to further the entity’s objectives (i.e. a transfer without present obligations in ED 71). When applying the ED 70 definition of a binding arrangement to the two components separately, an entity would conclude that the arrangement is binding and enforceable for the ED 70 transaction, but for the ED 71 transaction it is not. These two components however arise from the same arrangement. Local grant legislation could also result in some grants containing performance obligations and others not. It is hard to understand how the same legislation could be a binding arrangement and enforceable for some grants but not for others.
- Although guidance is provided in ED 70 on identifying a binding arrangement, stakeholders questioned how they should make the assessment where legislation establishes broad

requirements for entities to transact, and the two parties determine more specific terms in arrangements between them in addition to the legislation.

RECOMMENDATION: We believe the definition of “binding arrangement” should be aligned to existing definitions in IPSAS, for example the definition in IPSAS 35 on *Consolidated Financial Statement*, which does not require both parties to have rights and both parties to have obligations. The scope of ED 70 should be based on whether a transaction has performance obligations.

Scope of ED 70

Using performance obligations to distinguish transactions

We note that an outcome of the 2017 Consultation Paper was that the IPSASB decided to replace the exchange/non-exchange approach to distinguish transactions with an approach based on whether a transaction has performance obligations. As noted in our cover letter, we have concerns about the appropriateness of the approach for the public sector and have noted specific areas where we do not think the private sector requirements are appropriate in ED 70.

We note that commercial “IFRS 15-type” transactions are the minority in the public sector. Governments’ major sources of revenue are taxes (for government holistically) and transfers (for most individual entities). The approach has therefore been changed and aligned to the private sector for a small set of transactions in the public sector.

We note that one of the difficulties with the exchange/non-exchange approach is that entities find it hard to determine when “approximately equal value” has been exchanged between the parties. We note that this issue may have been resolved with a performance obligations approach. However, we have identified difficulties that would exist with a performance obligation approach in the public sector. These include:

- Entities may find it difficult to determine whether a transaction has performance obligations or present obligations, as discussed below. Some stakeholders noted that the IPSASB may have replaced one difficulty with another by changing the approach, as the distinction between revenue transactions would remain difficult to make.
- The information that users need may no longer be available. Specifically, stakeholders responsible for statistical reporting noted concerns with information they need on exchange/non-exchange transactions will no longer be available, and that the classification would move further away from the GFSM. The implication of a performance obligation approach would be that these entities would need to build additional capabilities in their systems to disaggregate revenue transactions further from with/without performance obligations to exchange/non-exchange. In addition, the budget legislation in our jurisdiction is aligned to the exchange/non-exchange approach. A performance obligation approach would require amendments to legislation.

RECOMMENDATION: The IPSASB may need to reconsider the change in approach, giving specific consideration to whether the difficulties expressed with IPSAS 23 have been resolved, and whether the information provided to users would be relevant.

Identifying performance obligations

The IPSASB developed ED 71 alongside ED 70, and these two EDs provide the requirements for all revenue transactions in the public sector. As explained by the IPSASB in the educational

material provided with the EDs, there are two steps an entity should follow to determine whether a transaction is in the scope of ED 70. The steps are (1) determine whether the transaction arises from a binding arrangement, and (2) determine whether the transaction contains performance obligations. Transactions that do not arise from binding arrangements and have performance obligations are therefore in the scope of ED 71.

By adopting the IFRS 15 5-step revenue recognition model, adapted for the public sector in certain areas, we foresee difficulty for entities to determine the transactions that would be in the scope of ED 70. In the private sector, entities do not need to assess whether their revenue transaction could potentially be in the scope of another revenue standard, because there is no equivalent of ED 71 in the private sector. The guidance in ED 70 on steps 1 and 2 above are presumably linked to steps 1 and 2 of the 5-step revenue recognition model, being step 1 – identifying the binding arrangement and step 2 – identifying performance obligations.

We believe there is a need to clarify the guidance in paragraph 26(a) and (b) that is meant to identify distinct goods or services. It may be unclear whether this guidance is applied upfront to a binding arrangement to identify whether there are any performance obligations in the arrangement, i.e. determining whether a transaction is in the scope of ED 70, or whether it is applied after an entity has confirmed the transaction is in the scope of ED 70 to identify how many performance obligations are contained in the arrangement. From paragraph AG33 it appears as if the same guidance should be applied in both instances. We believe that different guidance is necessary to identify whether an arrangement contains performance obligations (to determine the applicable Standard), than what is applied in step 2 of the 5-step model (to determine how many performance obligations an arrangement includes).

RECOMMENDATION: We believe that the guidance in paragraph AG35 on applying judgement to identify whether promises are sufficiently specific could be elaborated on by:

- Distinguishing the identification of performance obligations to determine the applicable Standard (paragraph AG35) from step 2 to determine how many performance obligations exist (paragraphs 26 to 28).
- Adding guidance to paragraph AG35 (a) to (d) that explains how an entity would apply these factors to identify performance obligations.

We also note that in practice, identifying “distinct goods and services” is an area that entities struggle with in the private sector when applying IFRS 15. Further guidance will be necessary in this area for the public sector as well. See discussion on distinguishing performance from present obligations below.

We support the guidance in paragraphs AG36 and AG37 that explains how performance indicators are distinguished from performance obligations. We think similar guidance would be helpful in ED 71 as, for the same reasons, performance indicators are not present obligations.

Distinguishing performance obligations from present obligations

Both performance obligations and present obligations arise from binding arrangements. The distinction determines whether the transaction is in ED 70 or ED 71 and is therefore an important step in recognising revenue.

Stakeholders noted that the text and application guidance were insufficiently clear for them to make the distinction in some instances. The distinction may be difficult to make where goods or services are provided to third parties. Currently all instances where goods or services are provided to third parties are in the scope of IPSAS 23 as they are non-exchange transactions. With the proposed approach, entities would need to determine whether the goods or services provided to third parties are performance obligations or present obligations (assuming the arrangement meets the definition of a binding arrangement).

We find the guidance unclear in the following areas:

- The level of specificity required in the binding arrangement regarding the third parties. For example, should the binding arrangement identify the specific third parties to whom goods or services should be transferred for it to be a performance obligation? Where it is left to the discretion of the entity receiving consideration to determine the specific beneficiaries, would it be a present obligation? This is our current interpretation.
- The level of specificity required in the binding arrangement regarding the goods or services to be provided. For example, should each good and service be stipulated for it to be a performance obligation, or could it still be a performance obligation where the entity can decide which goods or services it will provide to “reach an end goal”.
- Whether both of the above aspects must be described to the level of specificity above for it to be a performance obligation, or whether only one of the aspects above needs to be specifically described for it to be a performance obligation.

We find that the examples in the ED make it difficult to distinguish performance from present obligations and we do not agree that all examples in ED 70 would be performance obligations. For example, paragraph 25(d) explains that a distinct good or service would be a vaccination program for children provided by a hospital funded by a government. We think this is rather an example where the goods and services and the beneficiary are not sufficiently specific for it to be a performance obligation and would rather see it as a specified activity in ED 71. We have a similar concern with the example in paragraph AG25 of a central government providing funding to a regional health department to conduct bone density screening for citizens over the age of 55.

As noted under *Definition of binding arrangements* above, in practice arrangements are often not specific regarding the goods or services to be provided in the arrangement as well as the third parties to whom the goods or services are provided. The lack of specificity would make it difficult to apply the PSPOA.

Intellectual property: There is legislation in our jurisdiction governing the rights associated with intellectual property. Arrangements where intellectual property are developed would be subject to this legislation. Furthermore, there is a drive for information to be “open source”. Similar legislation may exist internationally. It may be useful for the IPSASB to consider prevalent international legislation and a drive for “open source” information in the examples included in ED 70 and ED 71 on research that results in the development of intellectual property. This may further impact on whether a performance obligation or present obligation exists.

<p>RECOMMENDATION: The principles necessary to distinguish a performance from a present obligation should be highlighted explicitly in both ED 70 and ED 71. It may be useful to develop indicators for an obligation to be a performance obligation rather than a present obligation, for</p>

example the level of specificity required. After these indicators have been developed, we recommend that a full review of all examples in both ED 70 and ED 71 be done to ensure consistency. This includes examples in the core text, application guidance and illustrative examples.

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 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?

We support the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”.

On balance the view was that the definitions will add an unnecessary level of complexity to the classification of revenue transactions. A minority view was expressed locally that defining these subsets of revenue will enhance understanding and will assist users to correctly classify revenue.

See further comments on the change in approach to recognise revenue based on whether a transaction has performance obligations included in specific matter for comment 1 above.

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?

We do not support the guidance included in paragraphs AG69 and AG70 to account for transactions with components related to ED 70 and ED 71 respectively.

Although we support the IPSASB providing guidance to identify and separate components of a transaction, we do not believe the guidance in paragraphs AG69 and AG70 would be helpful to entities. In considering our comment and recommendations below for ED 70, consideration should also be given to amending the guidance in ED 71.

Placement of guidance

Paragraph 5(a) and (b) in the scope section of ED 70 provide guidance on binding arrangements that are partially within the scope of ED 70 and partially within the scope of other Standards listed in paragraph 3. Paragraph 3(a) includes transactions in the scope of ED 71.

Paragraphs AG69 and AG70 provide guidance on transactions with components in ED 70 and ED 71 respectively as part of step 3 - determining the transaction price.

There is presently no link between paragraph 5 and paragraphs AG69 and AG70.

RECOMMENDATION: Consider relocating paragraphs AG69 and AG70 to the scope section of ED 70 (e.g. after paragraph AG6) as entities would need to read the guidance together in order to identify a transaction with components in ED 70 and ED 71 respectively. Entities would also need to make this assessment at inception so that only the component(s) related to ED 70 are dealt with in ED 70. We note that similar guidance is included in the scope section of ED 71 paragraph 9.

Identifying transactions with components

The guidance in paragraphs AG69 and AG70 includes a rebuttable presumption that the transaction price is wholly related to the delivery of goods or services. The presumption is rebutted when the terms of a binding arrangement clearly specify that only a portion of the consideration is to be returned if the entity does not deliver the goods or services. An entity therefore identifies a transaction with components by reference to whether the binding arrangement clearly specifies that only a portion of the consideration is to be returned in the event of non-performance.

We believe that identifying a transaction with components in this way does not consider binding arrangements with present obligations in the scope of ED 71 where entities may also be required to return resources to the transfer provider in the event of non-performance or under-performance. In these instances, an entity would not be able to identify a transaction with components.

Consider the following simplified example which illustrates the issue:

Entity A enters into a binding arrangement with Local Government B. Entity A will provide resources of CU 5 million to Local Government B for a 3-year period. Entity B is required to spend the funds on developing an asset. Entity A will obtain a 50% interest in the asset while Local Government B will be entitled to retain a 50% interest in the asset. Local Government B is required to return all the resources if they are not spent as required.

Applying paragraphs AG69 and AG70, Local Government B would conclude that the transaction does not have components, because all the consideration is to be returned to Entity A if Local Government B does not develop the asset. The presumption is therefore not rebutted. This conclusion is incorrect as the binding arrangement clearly has two components:

- *Component 1: Entity A pays CU 2.5 million (presume it's 50% of the consideration) to Local Government B to develop an asset for Entity A. This is a transaction with a performance obligation in ED 70.*
- *Component 2: Entity A pays CU 2.5 million (presume it's 50% of the consideration) to Local Government B to develop an asset for Local Government B. This is a transaction with a present obligation in ED 71.*

RECOMMENDATION: We propose that the IPSASB considers providing different guidance on identifying a transaction with components in ED 70 and ED 71 respectively. The guidance should not only consider whether all or a portion of the funds are to be returned in the case of non-performance or under-performance. For example, the guidance could refer to whether the terms of the binding arrangement clearly specify that a portion of the consideration is for a performance obligation(s) and a portion is unrelated to a performance obligation(s).

Guidance where components cannot be separated

The guidance in ED 70, read with the guidance in ED 71 paragraph 9, states that where it is not possible to distinguish between the components with performance obligations and without performance obligations, the entire transaction is accounted for in ED 70.

We note that this is a change from existing guidance in IPSAS 23. If entities are unable to identify components that are exchange and non-exchange respectively, an entity accounts for the entire transaction as a non-exchange transaction, i.e. in the scope of IPSAS 23.

We do not believe that it is appropriate to account for a transaction with components, where only a portion of the consideration relates to a performance obligation(s), fully in ED 70 applying the 5-step model. Specifically, we think entities would find the following steps difficult:

- Step 2 Identifying performance obligations. It may be difficult to identify the distinct goods and services to be delivered in an arrangement that includes a component(s) unrelated to performance obligations.
- Step 4 Allocating the transaction price to performance obligations. An entity would be unable to allocate the transaction price to performance obligations in a meaningful way.
- Step 5 Satisfaction of performance obligations. Difficulty in applying steps 2 and 4 further impacts on the timing of revenue recognition.

RECOMMENDATION: We propose that the IPSASB reconsiders the guidance in ED 70 and ED 71 to account for the entire transaction in ED 70 where the components cannot be separated. We believe it would be more appropriate to account for the entire transaction in ED 71, aligned to existing requirements in IPSAS 23.

Determining the allocation of consideration

Paragraph 5 requires entities to look to guidance in the other standards first for allocation requirements. Where the other component of a transaction in ED 70 is in ED 71, ED 71 does not provide this guidance and therefore an entity would be required to apply ED 70 paragraph 5(b). It is however unclear how an entity should determine the portion to allocate to ED 71. This is in the context of our comment above that an entity would not be able to identify the components with reference to the portion of consideration to be returned for not satisfying performance obligations where there are present obligations with a return obligation in ED 71. We note the discussion in paragraph BC59 but do not think the current guidance is helpful.

RECOMMENDATION: We recommend that explicit guidance be provided on how an entity should allocate the binding arrangement consideration to each component of the transaction, considering our concerns regarding the proposed rebuttable presumption.

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?

We do not support the mirroring of all of the presentation and disclosure requirements from IFRS 15.

Presentation: performance obligation distinction

Refer to concerns raised in specific matter for comment 1 regarding the change in distinguishing revenue transactions from exchange/non-exchange to transactions with or without performance obligations. Users currently receive information in the financial statements about exchange and non-exchange transactions separately, which meets certain needs, including information needed for statistical reporting and budget purposes.

ED 70 and ED 71 will require entities to present revenue transactions disaggregated as follows:

- Revenue with performance obligations
- Transfers with present obligations
- Transfers without present obligations
- Taxes
- Other compulsory contributions and levies

Because there is no direct comparison with exchange/non-exchange revenue, users would potentially no longer receive the information they need.

Presentation: binding arrangement assets

We note that the presentation requirements for binding arrangement assets and liabilities are mirrored from IFRS 15. We have the following concerns with these requirements:

- Entities would be required to distinguish binding arrangement assets from receivables. Stakeholders noted that this is overly complex and adds little value to users. This would further require entities to perform calculations outside of their systems which is onerous.
- The section creates unnecessary duplication in the ED. For example, there is a duplication between paragraphs 106 and 107, and AG140 and AG141 on subsequent measurement of receivables that already refers entities to IPSAS 41. See our comment in Annexure B on subsequent measurement of receivables.

RECOMMENDATION: We suggest that the requirements for binding arrangement assets be reconsidered.

Disclosure

We support the inclusion of a disclosure objective. We also support the disclosure requirements related to significant judgements. This is an area of improvement in financial statements. We

agree that more specific requirements are necessary to improve the information disclosed in financial statements.

We are, however, concerned about the extent of the disclosure requirements that have been included from IFRS 15. Stakeholders noted that the information needs of users in the public sector are different to the private sector. The number of transactions in the public sector that are commercial in nature, and comparable to IFRS 15 transactions, are limited. Stakeholders noted that they do not have the capability to generate the information required from their existing systems. Extensive resources would be required to produce the information outside of their systems, or to upgrade their systems.

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 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?

We partially support the additional disclosure requirements for compelled transactions, but do not support the criteria in step 1 on binding arrangements.

We discuss the criteria in step 1 on binding arrangements separate from the proposed disclosure requirements for compelled transactions.

(a) Step 1 – Criteria for binding arrangements

Paragraph 8 of ED 70 includes five criteria that need to be met for an entity to account for a binding arrangement using the 5-step model. We recognise that the criteria are aligned to similar criteria in IFRS 15 and note the discussion in the basis for conclusions. We have the following concerns regarding the application of the criteria, and specifically criterion (e), in the public sector:

Determining when an implicit price concession has been granted and impairment losses

In order to assess whether criterion (e) has been met, an entity considers the purchaser’s ability and intention to pay the transaction price. The transaction price may be lower than the price stated in the binding arrangement if the entity has offered a price concession, which may be implicit. Paragraph AG31 explains that the transaction price is the price the entity expects to be entitled to, rather than the amount that it expects to ultimately collect. The transaction price considers discounts, rebates, credits, price concessions, but is not reduced for impairment losses.

We have concerns with entities’ ability to determine the transaction price where implicit price concessions may have been granted, and distinguishing this assessment from identifying impairment losses. The illustrative examples demonstrate the difficulty in distinguishing a price concession from impairment losses. We have summarised our concerns with the illustrative examples as follows:

Example	Summary of example facts and conclusion	Why we think the guidance is unclear and inconsistent
5: Collectability of the consideration	Government has a residential rent-to-own programme where a resident may buy a unit at market value less accumulated rent paid. The programme allows residents to finance the purchase over a 20-year period, but only requires residents to repay the financing agreement past	The example appears inconsistent with the guidance in the ED. This is because it is part of government’s programme that a resident only repays their financing agreement beyond superannuation age if they have a certain level of income at that age.

	<p>superannuation age if they have a certain level of income at that age.</p> <p>The example concludes that a specific resident will not repay their financing agreement past superannuation age due their income level, and therefore criterion 8(e) is not met.</p>	<p>We therefore consider the example to illustrate a price concession as explained in paragraph 51.</p> <p>The example should assess the probability that government will collect the consideration to which it will be entitled, after taking the price concession into consideration.</p>
6: Consideration is the stated price – implicit price concession	<p>A government agency provides a prescription drug to a hospital, the price is regulated. Due to a medical crisis in the region, the government agency expects that it will not be able to collect the full amount from the hospital.</p> <p>The government agency determines that the price is not fixed, but variable, as an implicit price concession has been granted.</p> <p>Because the hospital will be able to pay the lower amount, criterion 8(e) is met.</p>	<p>It is unclear how the government agency's assessment of variable consideration differs from an impairment assessment of the hospital. This is further questionable given that the price of the drugs is regulated, which implies that the government agency has no choice but to charge the hospital the full amount.</p> <p>We think that this example illustrates an impairment assessment rather than an implicit price concession. The example should illustrate how government assesses the consideration it will be entitled to in the transaction.</p>
46: Disclosure of transactions that an entity was compelled to enter by legislation or other governmental policy decisions	<p>A government owned utility provides electricity to residential households. The utility is required by legislation to provide such electricity regardless of the households' ability to pay.</p> <p>During the year electricity to the value of CU100 million is provided at the standard rates. Throughout the year, a number of households are unable to pay. Based on historical information, the utility estimates that only CU90 million of the amount is collectible. It accepts that it has provided an implicit price concession for the CU10 million.</p> <p>The utility recognises revenue based on the transaction price of CU90 million and provides the required disclosures.</p>	<p>It is unclear how the utility's assessment of whether an implicit price concession has been granted differs from an impairment assessment. This is particularly because of the statement that "throughout the year, a number of households are unable to pay", and the utility then makes the assessment at the end of the year based on historical information.</p> <p>The example is inconsistent with the requirements of the ED for the following reasons:</p> <ul style="list-style-type: none"> • Paragraphs 12 and AG30 require an entity to make the assessment of whether the criteria in paragraph 8 are met <i>upfront</i>. The example illustrates that the assessment is made subsequent to the entity providing electricity and not receiving payment, at reporting date. It further makes the distinction with an impairment assessment unclear. • In estimating variable consideration, paragraph 53 requires an entity to

		<p>consider historical, current and forecast data and to identify a reasonable number of possible consideration amounts. In the example, the utility only considers historical data and it is unclear how a reasonable number of possible amounts have been determined.</p>
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It is unclear how an entity will account for collecting 100% of the amount that the entity is entitled to from a binding arrangement when it has initially recognised a lower amount upon considering an implicit price concession. We believe this could be clarified in the ED.

Implications of not meeting criterion (e)

Paragraphs 13 to 15 have reference. We question the requirements in the ED that an entity recognises no transactions related to binding arrangements that do not meet all the criteria in paragraph 8. An entity would only recognise revenue upon receiving consideration when further criteria in paragraph 14 are met, otherwise a liability is recognised. We believe the implications of these requirements from IFRS 15 are inappropriate for the public sector.

The implications of these requirements are as follows:

- Cash accounting applied: Entities presently recognise revenue when risks and rewards of goods and services are transferred to a purchaser, or when they recognise an asset for transferring goods or services to third parties (to the extent that they do not recognise a liability for present obligations). In instances where all five criteria in paragraph 8 are not met, entities will effectively account for revenue on the cash basis. Given the volume of compelled transactions in the public sector, we do not believe this is an appropriate approach to hold entities accountable and enable decision making. In our jurisdiction some state owned entities have been impacted by this requirement as they apply IFRS Standards.
- Information available in financial statements: Although information may be disclosed for compelled transactions, a user would not obtain the same level of information about receivables that are not recognised as a result of not meeting criterion (e), e.g. credit risk information required by the IPSAS on financial instruments. We do not believe it is appropriate for this information to be omitted from the financial statements for transactions that do not meet this criterion. In fact, it may be more important for a user to have this information about transactions that do not meet criterion (e).

Information on the same type of revenue would be dispersed throughout the financial statements. A user would need to read different parts of the financial statements together to understand the information.

We further note that accrual information is required for statistical reporting purposes, for example to the International Monetary Fund. The information disclosed in the notes (on transactions not recognised) together with information in the statements recognised on the cash basis would have to be reworked into accrual information to meet these reporting requirements.

- Practical implications: The ED requires entities to assess upfront whether the counterparty has the ability and intention to pay the transaction price. Making this assessment, together

with an assessment of whether an implicit price concession is being granted, would be practically challenging for entities that provide compelled goods and services to potentially thousands of purchasers or more. Even when applied at a portfolio level the assessment is onerous. For example, municipalities that provide water and electricity to households. Furthermore, billing systems would continue to bill purchasers for goods and services delivered to them, with the resultant revenue and receivables being raised in entities' subsystems. In order to apply paragraphs 13 to 15, as well as to make the required disclosures, entities would need to perform calculations outside of their systems. This practical challenge may be hard to overcome as it is onerous and includes a high risk of error.

We lastly note that the implications of the criteria in paragraph 8 may affect more than just compelled transactions in the public sector. Even where entities are not compelled by legislation or similar means to deliver certain goods or services, the nature of transactions in the public sector is such that public sector entities may transact with a purchaser irrespective of the purchaser's ability or intention to pay consideration.

(b) Disclosure for compelled transactions

Aside from the concerns we raised above regarding the criteria for binding arrangements, we support the disclosure requirements that have been added for compelled transactions.

However, concerns were raised about the impact that presenting this information could have on collectability of receivables. Users of financial statements who are also purchasers may perceive that they no longer need to pay the entity for goods or services they have received, or that they could pay less. Specifically, we are concerned about the requirements to disclose information on:

- The amount of revenue that was not recognised as revenue, as the collection of consideration was not probable.
- The amount of revenue recognised after identification of an implicit price concession, and the amount of revenue not recognised as it was considered an implicit price concession.

RECOMMENDATION: We suggest that the inclusion of criterion 8(e) be reconsidered as we do not think it is appropriate for the public sector and the practical challenges highlighted above would require financial and human resources to overcome.

Should the criterion be retained, additional guidance would be required on how the assessment is made and how it is distinguished from an impairment assessment.

The disclosure requirements may further need to be reconsidered based on the information value to users and potential unintended consequences regarding collectability of receivables.

ANNEXURE B – OTHER SIGNIFICANT ISSUES

1. Subsequent measurement of receivables

Paragraphs AG140 and AG141 have reference. The guidance directs entities to IPSAS 41 for contractual receivables and provides guidance for non-contractual receivables.

Inclusion and placement of guidance

We question the inclusion of guidance on subsequent measurement of receivables in ED 70. Paragraph 3(d) excludes financial instruments and other contractual rights or obligations within the scope of IPSAS 41 from the scope of ED 70. It is therefore inappropriate to provide guidance on these items in ED 70 as they are excluded from the scope.

If the guidance is retained, we question the placement thereof in the application guidance. Similar guidance in ED 71 has been included in the core text.

Appropriateness of guidance

Refer to our response to specific matter for comment 5 of ED 71. Our concerns regarding the appropriateness of the guidance in ED 71 apply equally to ED 70, specifically for non-contractual receivables in paragraph AG140(b).

ANNEXURE C – DRAFTING AND OTHER COMMENTS

General comment

- Consider clarifying upfront the role players in ED 70 transactions and use consistent terminology. For example, “resource recipient” and “entity” are sometimes used interchangeable and they could appear to be two separate role players. E.g. paragraph AG10.
- With the proposal to replace the existing exchange/non-exchange distinction with whether a transaction has performance obligations, we propose that a thorough review be done of existing literature to identify references to exchange/non-exchange transactions that may become irrelevant. We have noted some text in *Appendix B – Amendments to other IPSAS* related to IPSAS 41 that would require reconsideration.

Specific comment

Paragraph	Comment
5(b)	We recommend including a reference to the specific paragraphs in the standard which provide guidance on the separation of components.
7	Definition of control of an asset: we question the need to elevate this to a definition. Also consider consistency with ED 71 as in ED 71 it is discussed in paragraphs 34 and 35.
7	Definition of transaction price: it is unclear why two paragraphs on transaction price are stated separately. There is duplication between the paragraphs that can be removed by combining them.
25(h)	The example of the health department is unclear as there seems to be words that are missing; reconsider the drafting.
37(e) and AG133	Paragraph 37(e) refers to the point when the purchaser has accepted the asset. It is unclear why the paragraph does not also refer to when a third party beneficiary has accepted the asset. We propose that this be added.
91	The paragraph includes sales commission as an example of incremental costs of obtaining a binding arrangement. Consider whether there is an example more relevant to the public sector.
104 to 108	We question the placement of the section as presentation requirements. It relates to the recognition of assets and liabilities. (We acknowledge that IFRS 15 has placed the guidance as presentation guidance.)
AG29	The paragraph refers to entities being compelled to provide certain goods and services to “citizens”. Consider using a broader term as “citizens” may imply that it only relates to individuals.
AG40	The paragraph refers to the second requirement. Consider being explicit about the first requirement or creating a link to a paragraph where both requirements are introduced.

AG96	The paragraph includes a healthcare membership as an example of a non-refundable upfront fee. Consider if there is a more relevant example for the public sector.
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