



ED70 – REVENUE WITH PERFORMANCE OBLIGATIONS

Issued 30 October 2020

ICAEW welcomes the opportunity to comment on *ED70 – Revenue with Performance Obligations* published by the International Public Sector Accounting Standards Board (IPSASB), a copy of which is available from this [link](#).

We support close alignment between IPSAS and IFRS where possible and therefore support this draft standard as it is closely aligned to IFRS 15 *Revenue from Contracts with Customers*.

This response of 30 October 2020 has been prepared by the ICAEW public sector team with support from ICAEW's Public Sector Advisory Group.

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KEY POINTS

Support for the introduction of a revenue standard based on IFRS 15

1. ICAEW supports the aim of ED70 which is to develop a standard that provides recognition and measurement requirements for revenue transactions with performance obligations based on IFRS 15 Revenue from Contracts with Customers. We strongly support alignment with IFRS where possible as we believe that this will make the IPSAS standards more accessible and should facilitate their adoption as jurisdictions will have access to a wider pool of professionals.
2. We also agree that the scope of IFRS 15 needs to be expanded for the public sector such as widening the scope from contracts to binding arrangements as per SMC1. The draft standard states that binding arrangements may be created through 'equivalent means' which will be subject to judgement in some cases. IPSASB should monitor the application of 'equivalent means' to ensure that sufficient guidance is available in the standard.

ANSWERS TO SPECIFIC MATTERS FOR COMMENT (SMC)

SMC 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?

3. We agree to base the principles of revenue with performance obligations on IFRS 15 and we agree that the scope of this ED is clear. Not all arrangements in the public sector will be based around an identifiable contract which is what IFRS 15 is centred on so it makes sense to widen the scope in this respect.
4. The many ways in which a binding arrangement can be enforced in the public sector, when compared to the private sector, is a key difference to IFRS 15. Binding arrangements in the public sector will often be created through 'equivalent means' which will be subject to judgement in certain cases. Whilst the core text only makes reference to this concept once, it is explained further in AG7 to AG12 which forms part of the authoritative guidance. IPSASB should monitor the application of 'equivalent means' to ensure that sufficient guidance is available in the standard.

SMC 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?

5. We agree with the IPSASB's decision not to define transfer revenue or transfer revenue with performance obligations for the reasons set out in the BC's.

SMC 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?

6. We agree with the application guidance. We also agree with the rebuttable presumption that the binding arrangement relates solely to the supply of goods/services under a performance obligation unless there is a clear provision that only a portion of the consideration is to be returned in the event to fully complete the performance obligation.
7. Transactions that contain elements of both with and without performance obligations can be difficult to identify and disentangle as was evidenced by feedback on IPSAS 23 – Revenue from non-exchange transactions. We therefore suggest that IPSASB should monitor the application of splitting the transaction into the two components and provide additional real-life examples should feedback emerge that this area remains challenging. We would envisage that this would be a staff paper outside the confines of the standard, such as a staff Q&A.

SMC 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?

8. We agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed. In our view there are no compelling public sector specific reasons not to fully align with IFRS 15.

Question 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?

9. We support this additional disclosure requirement over and above those required by IFRS 15.
10. We note that paragraph 14 (a) has also been slightly tweaked when compared to the IFRS 15 equivalent (paragraph 15 (a)). IPSASB have softened the requirement that allows revenue recognition more easily if the purchaser does not meet all the criteria as set out in paragraph 8 (e). The reasons for this change are explained in BC42 and BC43.
11. We agree with both these amendments that relate to scenarios in which customers are unable or unwilling to pay yet entities are nevertheless compelled to provide goods or

services. The amendment to paragraph 14 (a) should also feature in the comparison table with IFRS 15, currently on page 176 of the draft standard.

12. Government business enterprises providing utility services such as water and electricity are most likely to be in scope of these amendments. Overall, we would not expect these types of scenarios to be material and the disclosure requirements in paragraph 120 may be seldom enacted upon.