Agenda Item 8:
ED 71, *Revenue without Performance Obligations*

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IPSASB Meeting

Abu Dhabi, United Arab Emirates

December 10–13, 2019

Project management: Stock take

- Road Map – progress to date and future meeting plans
- Board Instructions – satisfied with actions taken?
- Board Decisions – previous decisions taken and key future issues
- Other Issues?

Session Outline

Topic	Agenda Item
Themes	Agenda item 8.2.1
Summary of Changes to ED 71	Agenda Item 8.2.2
Structure	Agenda Item 8.2.3
Measurement	Agenda Item 8.2.4
Capital Transfers	Agenda Item 8.2.5
Other Issues	Agenda Item 8.2.6
Onerous Revenue Binding Arrangements	Agenda Item 8.2.7
Accounting for a Breach of a Binding Arrangement	Agenda Item 8.2.8
From Whose Perspective Does a Breach Occur?	Agenda Item 8.2.9
Specific Matter for Comment	Agenda Item 8.2.10
Approval of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*	Agenda Item 8.2.11

Themes from November In-Period Review (Agenda Item 8.2.1)

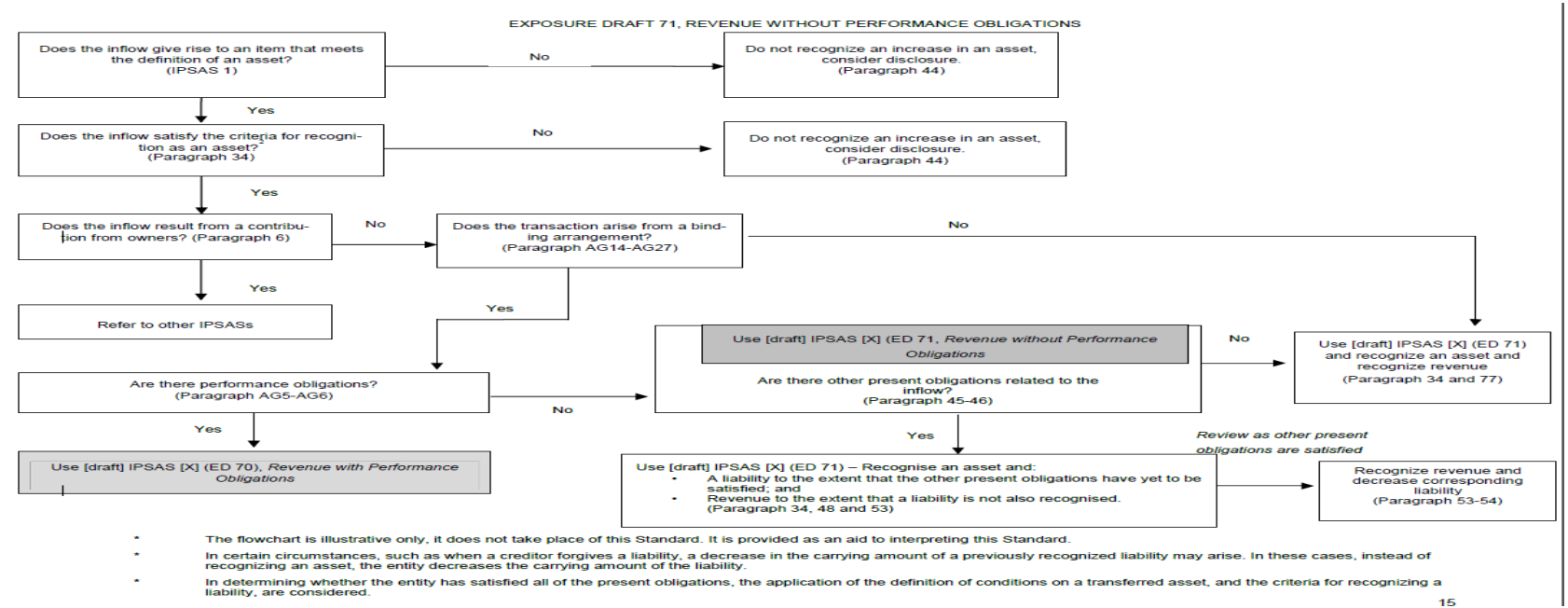
#	Theme	ED Impacted
01	Transfer Revenue / Transfer Expense	Cross Cutting
02	Disclosures	Cross Cutting
03	Binding Arrangement	Cross Cutting
04	Examples / Editorials (Including BCs)	Cross Cutting
05	Structure	ED 71
06	Measurement	ED 71
07	Capital Transfers	ED 71
10	Other Issues	ED 71

Summary of Changes (Agenda Item 8.2.2) 1/3

Changes made since in-period review in mark-up

- Objective (Agenda Item 8.2.6)
- Scope (Agenda Item 8.2.6)
- Enforceability (Agenda Item 8.2.6)
- Present Obligations (Agenda Item 8.2.6)
- Flowchart
- Measurement (Agenda Item 8.2.4)
- Restructuring (Agenda Item 8.2.3)
- Receivables (paragraphs 66, 67 and 75)
- Capital Transfers (Agenda Item 8.2.5)
- Uncollectible Inflows Disclosure (paragraph 122)
- Determining the Transaction Price (paragraph AG 34)
- Amendments to Other IPSAS (Appendix B)

Summary of Changes (Agenda Item 8.2.2) - Revised Flowchart 2/3



Summary of Changes (Agenda Item 8.2.2) 3/3

Decision Required

- Does the IPSASB agree with recommended changes?

Structure (Agenda Item 8.2.3) 1/3

Respondents commented:

- Lack of consistency between EDs 70 & 72 and ED 71
- Unsure how the suite of standards would work together
- Taxes and transfers are application guidance

Structure is challenging because ED 71 addresses:

- Recognition and measurement for:
  - Assets;
  - Liabilities;
  - Revenue
- Also addresses initial and subsequent measurement of non-contractual receivables

Structure (Agenda Item 8.2.3) 2/3

ED 71 December Board Papers	ED 71 In-Period Review	ED 70 No Change	ED 72 No Change
Scope	Scope	Scope	Scope
Objective	Objective	Objective	Objective
Definitions	Definitions	Definitions	Definitions
Analysis of the Initial Inflow of Resources from Transactions without Performance Obligations	Analysis of the Initial Inflow of Resources from Transactions without Performance Obligations	-	-
Recognition of Assets Arising from Resource Inflows	-	-	-
Transfers with Present Obligations	Recognition	Recognition	Transfer Expenses with Performance Obligations
	Measurement	Measurement	
Transfers without Present Obligations	-	-	Transfer Expenses without Performance Obligations
Application of Principles and Requirements	Taxes	-	-
	Transfers	-	-
-	-	Binding Arrangement Costs	-
-	-	Presentation	Presentation
Disclosure	Disclosure	Disclosure	Disclosure
Effective Date	Effective Date	Effective Date	Effective Date

Structure (Agenda Item 8.2.3) 3/3

Decision Required

- Does the IPSASB agree with recommended structure?

Measurement (Agenda Item 8.2.4) 1/7

Fair value measurement requirement altered to Transaction Price (excluding measurement associated with non-current assets)

- Consistency with ED 70 & IPSAS 23 (excluding credit risk)
- Addresses uncertainty of collection

In-period review comments

- Complexity in measuring taxes
- Interaction with IPSAS 41 and onerous impairment requirements
- Recognition requirements when not probable
- Non-cash vs cash distinction
- Incomplete transaction price guidance

Measurement (Agenda Item 8.2.4) 2/7

Staff recommendation - Complexity

- IPSAS 23 “best estimate” = ED 71 ‘most likely amount’
- Guidance included on measurement of taxes has been clarified
- See paragraph 90

Measurement (Agenda Item 8.2.4) 3/7

Staff recommendation – Interaction with IPSAS 41

- Recommend including an SMC – Do you agree with the IPSASB's proposals that receivables within the scope of this [draft] IPSAS [X] should be subsequently measured in accordance with the requirements of IPSAS 41, *Financial Instruments?*

Measurement (Agenda Item 8.2.4) 4/7

Staff recommendation – Not probable

- Guidance in ED 70 is equally applicable in ED 71 when inflow is not probable for collection
- Guidance on recognition of “not probable” revenue added
- See paragraphs 40-43

Measurement (Agenda Item 8.2.4) 5/7

Staff recommendation – Non-cash / cash distinction

- Restructure guidance
- See paragraphs 69-70

	ED 71 (in-period review)	ED 71 (Dec Board Mailing)
Cash transactions	Transaction Price	Transaction Price (Transaction price for non-cash transactions is fair value)
Non-cash transactions	Fair Value	

Measurement (Agenda Item 8.2.4) 6/7

Staff recommendation – Incomplete Transaction Price Guidance

- Add “price concession” guidance from ED 70, paragraphs 51(a) and (b) to ED 71
- Add “significant financing component” guidance from ED 70, paragraphs 59 to 64, to ED 71

Measurement (Agenda Item 8.2.4) 7/7

Decision Required

- Does the IPSASB agree with recommended changes?

Capital Transfers (Agenda Item 8.2.5)

Lack of consistency

- Paragraph 92 – inconsistency between definition and paragraph
- Paragraph 95 – an enforceable activity always exists in a capital transfer
- Paragraph 96 – allocation of inflow to construction of asset

Staff recommendation – Remove paragraphs 92, 95 & 96

Does the IPSASB agree with the staff recommendations?

Other Issues (Agenda Item 8.2.6) 1/3

Objective – lack of consistency between EDs (paragraphs 1 and 2)

Scope exclusions (paragraphs 3, 5 and 10)

Definitions (paragraph 11)

- Present Obligation
- Revenue

Enforceability (paragraphs 16 and 25)

Present Obligation (paragraphs 17, 28 and 52)

- Re Outflow of resources
- Guidance on liabilities
- Transaction Price
- Distinction between enforceable activities and eligible expenditure

Appropriations (paragraphs 36, AG 32 and BC 15)

Other Issues (Agenda Item 8.2.6) 2/3

Staff recommendation

- Objective and scope exclusions aligned
- No new definitions added
- Enforceability consistent with ED 70, text re constructive obligation added for clarity
- Present Obligation – new text added re outflow of resources and liabilities
  - SMCs included
    - Do you agree sufficient guidance exists in [draft] IPSAS [X] (ED 71) to identify and determine how to allocate the transaction price between different present obligations?
    - Do you agree sufficient guidance exists in [draft] IPSAS [X] (ED 71) to determine when a present obligation is satisfied and when revenue should be recognized? For example, point in time or over time?

Other Issues (Agenda Item 8.2.6) 3/3

Decision Required

- Does the IPSASB agree with recommended changes?

Onerous Revenue Binding Arrangements (Agenda Item 8.2.7) 1/2

Treatment of revenue binding arrangements that are potentially onerous

- Onerous binding arrangements
  - May be more prevalent in the public sector in situations where an entity is required to perform a task by law or regulation
  - Entity may get compensated with a lump sum or tariff that does not cover all costs
- Issue is also applicable in the private sector

Onerous Revenue Binding Arrangements (Agenda Item 8.2.7) 2/2

Staff Proposal – No change required

- Issue was discussed in IFRS 15.BC294 to BC296
  - IASB and FASB decided not to add onerous test in IFRS 15 / ASC 606
  - Boards decided onerous tests in IAS 37 and IAS 2 for IFRS, and ASC 450 for US GAAP, were sufficient and IFRS 15 and ASC 606 scopes out provisions
- ED 70 has similar scope exception for provisions within the scope of IPSAS 19
- ED 71 has been revised to have the same scope exceptions as ED 70 (see paragraph 3(h))

Accounting for a Breach (Agenda Item 8.2.8) 1/2

Accounting dependent on:

- Whether the arrangement gave rise to a present obligation;
- When the breach occurred

Breach in the current reporting period

- If no present obligation – reverse revenue
- If present obligation – reverse liability

Breach in a prior period

- Comparative period – restate revenue
- Prior to comparative period – restate opening balances

Accounting for a Breach (Agenda Item 8.2.8) 2/2

Staff recommendation

- IPSAS 3 applies therefore no extra text required

Decision required

- Does the IPSASB agree with the staff recommendations?

Whose Perspective does a Breach Occur (Agenda Item 8.2.9) 1/2

- Enforceability is two-way – either party may consider the agreement to have been breached



Whose Perspective does a Breach Occur (Agenda Item 8.2.9) 2/2

Staff recommendation

- No further guidance needed

Decision required

- Does the IPSASB agree with Staff's recommendation

Specific Matter for Comment (Agenda Item 8.2.10) 1/2

Specific Matter for Comment 1: (Paragraphs 17-24)

Do you agree with the IPSASB's proposals that for the purposes of this [draft] Standard, *Revenue with Performance Obligations,* a present obligation exists either as an enforceable activity or as an eligible expenditure? If not, do you have a more suitable proposal?

Specific Matter for Comment 2: (Paragraph 56)

Do you agree 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, why not?

Specific Matter for Comment 3: (Paragraphs 73-74)

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, why not?

Specific Matter for Comment (Agenda Item 8.2.10) 2/2

Specific Matter for Comment 4: (Paragraphs 73-75)

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, why not?

Specific Matter for Comment 5: (Paragraphs 114-124)

Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about the revenue transaction? If not, why not?

Specific Matter for Comment 6: (Paragraphs BC19-BC22)

Do you agree with the IPSASB's proposals for Capital Transfers rather than using the requirements of IAS 20, Accounting for Government Grants and Disclosure of Government Assistance (see paragraphs BC19-BC22)?

Does the IPSASB agree with the staff recommendations?

Approval of [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*

The IPSASB is asked to:

- Approve [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, for comment; and
- Confirm an exposure period ending August 31, 2020.



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