

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Virtual Meeting

**Meeting Date:** March 16–19 and 23, 2021

## Agenda Item 5

For:

☐ Approval

☒ Discussion

☐ Information

### REVENUE

<b>Project summary</b>	The aim of the revenue project is to develop one or more standards that provide recognition and measurement requirements for revenue transactions.	
<b>Task Force members</b>	Staff will consider the need and composition of a Task Force in Q2 based on March 2021 discussions.	
<b>Meeting objectives</b> <b>Project management</b>	<b>Topic</b>	<b>Agenda Item</b>
	<a href="#">Revenue and Transfer Expenses: Project Roadmap</a>	<a href="#">5.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">5.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">5.1.3</a>
<b>Decisions required at this meeting</b>	<a href="#">Revenue Project Overview</a>	<a href="#">5.2.1</a>
	<a href="#">Considering Guidance in the Context of IPSAS Users</a>	<a href="#">5.2.2</a>
	<a href="#">Options to Present Proposed Revenue Guidance</a>	<a href="#">5.2.3</a>
	<a href="#">Clarifying Binding Arrangements</a>	<a href="#">5.2.4</a>
	<a href="#">Distinguishing Revenue from Performance Obligations as a Separate Type of Revenue</a>	<a href="#">5.2.5</a>
	<a href="#">Transactions with Components within the Scope of Both Standards</a>	<a href="#">5.2.6</a>
	<a href="#">Existence of a Liability in a Binding Revenue Arrangement without Performance Obligations</a>	<a href="#">5.2.7</a>
	<a href="#">Revenue Project Plan</a>	<a href="#">5.2.8</a>
<b>Other supporting items</b>	<a href="#">Supporting Document 1 – ED 70 Specific Matters for Comment (SMC)</a>	<a href="#">5.3.1</a>
	<a href="#">Supporting Document 2 – ED 71 Specific Matters for Comment (SMC)</a>	<a href="#">5.3.2</a>

**REVENUE:  
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
<b>Revenue with Performance Obligations</b>	
March 2015	1. Approve Project Brief
June 2016	1. Discussion of the performance obligation approach with the Consultative Advisory Group
June 2017	1. Approve Consultation Paper
March 2018 to December 2018	1. Review Responses to the Consultation Paper
March 2019	1. Preliminarily approve the core text and authoritative guidance of the Exposure Draft
June 2019	1. Preliminarily approve updates to the core text and authoritative guidance of the Exposure Draft
December 2019	1. Approve Exposure Draft
March 2020 to September 2020	1. Document Out for Comment
December 2020	1. Review Responses 2. Discuss Issues
March 2021 to June 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
September 2021	1. Discuss Issues 2. Develop IPSAS
December 2021	1. Approve IPSAS
<b>Revenue without Performance Obligations</b>	
March 2015	1. Approve Project Brief
June 2016	1. Discussion of IPSAS 23 Implementation Issues with Consultative Advisory Group
June 2017	1. Approve Consultation Paper
March 2018 to December 2018	1. Review Responses to Consultation Paper
March 2019 to June 2019	1. Develop Underlying Principles of Core Text and Authoritative Guidance
September 2019	1. Review first draft of ED, and discuss issues
December 2019	1. Approve Exposure Draft
March 2020 to September 2020	1. Document Out for Comment

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December 2020	<ol style="list-style-type: none"><li>1. Review Responses</li><li>2. Discuss Issues</li></ol>
March 2021 to June 2021	<ol style="list-style-type: none"><li>1. Review Responses</li><li>2. Discuss Issues</li><li>3. Develop IPSAS</li></ol>
September 2021	<ol style="list-style-type: none"><li>1. Discuss Issues</li><li>2. Develop IPSAS</li></ol>
December 2021	<ol style="list-style-type: none"><li>1. Approve IPSAS</li></ol>

**INSTRUCTIONS UP TO PREVIOUS MEETING**

Meeting	Instruction	Actioned
<b>Revenue</b>		
December 2020	1. Consider the best option either to, reorder ED 70 and ED 71, either as separate standards (Option 1) or a combined standard (Option 2). Perform a detailed analysis on the structure of the EDs, focusing on the structure and arrangement that is most understandable, that best addresses issues, and provides the most clarity for constituents. Consider providing a preliminary overview of how the resulting standard(s) would look under both Options 1 and 2.	1. <a href="#">Agenda Item 5.2.3</a>
December 2020	2. Consider options for clarifying the scope of each proposed standard.	2. <a href="#">Agenda Item 5.2.3</a>
December 2020	3. Regarding the staff's proposal to revise the disclosures in the three EDs based on the nature and risks of the various types of revenue and transfer expenses applicable to the public sector, revisit the analysis in more detail and include consideration of which types of revenue and transfer expense transactions are the most prominent in the public sector.	3. In progress, to be discussed June 2021.
December 2020	4. Present a detailed project timeline and management plan, along with detailed analyses of other selected key issues, at the March 2021 meeting.	4. <a href="#">Agenda Item 5.2.8</a>
December 2019	1. All instructions provided up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 70, Revenue with Performance Obligations</a> and <a href="#">Exposure Draft (ED) 71, Revenue without Performance Obligations</a>	1. All instructions provided up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 70, Revenue with Performance Obligations</a> and <a href="#">Exposure Draft (ED) 71, Revenue without Performance Obligations</a>

**DECISIONS UP TO PREVIOUS MEETING**

Meeting	Decision	BC Reference
<b>Revenue</b>		
December 2020	1. Reorder the draft guidance in ED 70 and ED 71 to begin with ED 71, either as a separate standard, or a combined standard.	1. BC to be included in final IPSAS.
December 2020	2. Address concerns over the nature and length of disclosures in all three EDs by taking a principles-based approach focusing on the nature of the transactions and their risks.	2. BC to be included in final IPSAS.
December 2019	1. All decisions made up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 70, Revenue with Performance Obligations</a> and <a href="#">Exposure Draft (ED) 71, Revenue without Performance Obligations</a>	1. All decisions made up until December 2019 were reflected in the <a href="#">Exposure Draft (ED) 70, Revenue with Performance Obligations</a> and <a href="#">Exposure Draft (ED) 71, Revenue without Performance Obligations</a>

## Revenue Project Overview

### Purpose

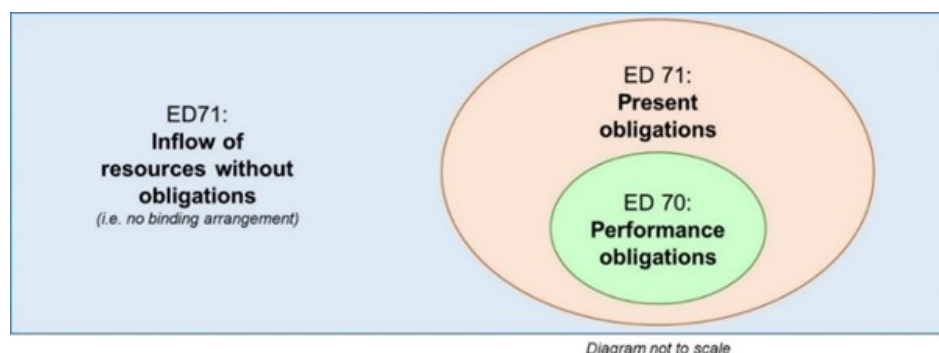
1. To provide an overview and background of the revenue project to date, Exposure Draft (ED) 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations*.

### Background

2. The project was approved as part of the IPSASB's 2015 Strategy and Work Plan. The objective is to develop new standards-level requirements and guidance on revenue to amend or supersede guidance that is currently in IPSAS 9, *Revenue from Exchange Transactions*; IPSAS 11, *Construction Contracts*; and IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.
3. The IPSASB issued proposals in February 2020 in ED 70 and ED 71 on the recognition and measurement of revenue.

### Proposed guidance in the revenue EDs

4. ED 70 and ED 71 differentiate revenue transactions into revenue with performance obligations, and revenue without performance obligations. A performance obligation is a promise in a binding arrangement with a purchaser to transfer a good or service, or a series of distinct goods or services, to the purchaser or a third-party beneficiary. A performance obligation is a specific type of present obligation (i.e., performance obligations are a narrow subset of present obligations), and these two types of revenue transactions are addressed in ED 70 and ED 71 respectively.



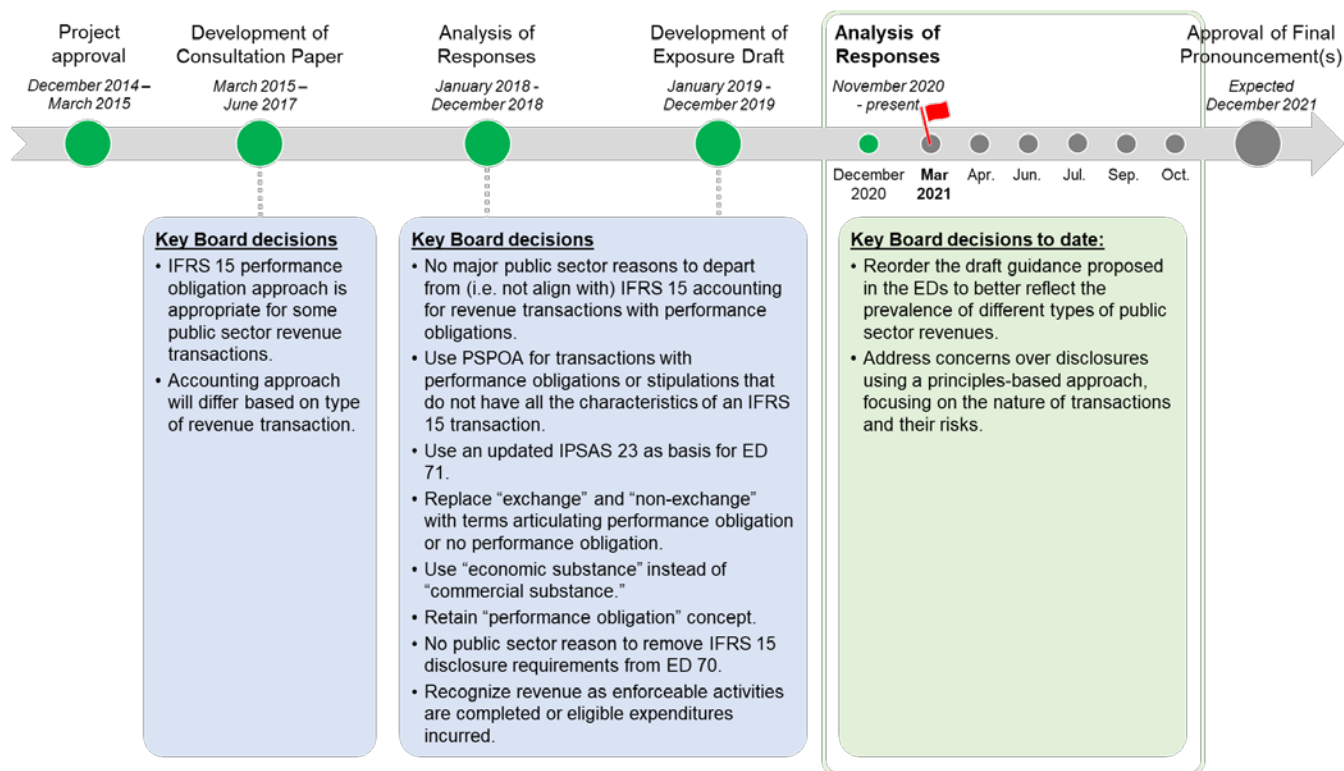
5. Under ED 70, revenue arrangements with performance obligations are accounted for using the Public Sector Performance Obligation Approach (PSPOA), which is based on the revenue recognition model from IFRS 15, *Revenue from Contracts with Customers*. The PSPOA involves:
  - (a) Step 1 – Identifying the binding arrangement;
  - (b) Step 2 – Identifying performance obligations in the binding arrangement;
  - (c) Step 3 – Determining the transaction price;
  - (d) Step 4 – Allocating the transaction price to the identified performance obligations; and
  - (e) Step 5 – Recognizing revenue when, or as, performance obligations are satisfied.
6. For revenue without performance obligations, ED 71 requires an assessment of whether a present obligation, arising from a binding arrangement that requires the recipient to perform specified activities or to incur eligible expenditures, exists upon the recognition of the received resources as

an asset. If a present obligation exists, a liability is initially recognized. As the present obligation is satisfied, the liability is drawn down and recognized as revenue.

7. ED 71 also provides guidance for revenue that does not arise from a binding arrangement, where there is a transfer without present obligations, such as revenue from taxes or transfers. A transfer recipient that receives an inflow of resources from a transaction with no present obligation is immediately recognized as revenue.

## Project timeline and key decisions

8. The IPSASB has made several key decisions which have shaped the development of the project to date. These decisions should be considered during the review of ED responses to frame and provide context for future decisions as the Board progresses towards finalizing the revenue standards.



## Staff's process to date

9. The IPSASB received nearly 140 comment letters<sup>1</sup> across the two revenue EDs. Overall, the proposed EDs were well received. The majority of respondents agreed or partially agreed with the Specific Matters for Comment (SMCs) in the respective EDs (see [December 2020 Agenda Items 8.3.1 and 8.3.2](#)). Staff assessed all ED responses, considering individual comments from each comment letter. Staff noted:
  - (a) There are recurring themes or issues in some comment letters which differ from the SMCs<sup>2</sup>. Each comment should be considered on its own merit and not just in the context of the SMC in which it was presented.

<sup>1</sup> In total, the IPSASB received 73 comment letters for ED 70, and 65 comment letters for ED 71.

<sup>2</sup> See [Agenda Item 5.3.1](#) for ED 70 and [Agenda Item 5.3.2](#) for ED 71 for list of respective SMCs.

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- (b) While these comments have been aggregated into specific themes, staff notes that they are not individually significant or pervasive across all ED responses. Comments under each theme generally constitute a minority of constituents.
- (c) The recurring themes often related to overarching themes:
  - (i) *Interrelation between EDs* – related to the distinction between revenue under ED 71 or ED 70, if separate standards are necessary, and how the “symmetry” between the proposed revenue standards and the proposed transfer expense standard.
  - (ii) *Application in Practice* – related to difficulty separating performance obligations and present obligations in practice, the length and complexity of the proposed revenue standards, and the need for further consideration of the public sector and the majority of its revenue transactions.
  - (iii) *Extent of Disclosures* – related to appropriateness of extent and relevance of disclosures in each proposed standard, and the availability of information required for such disclosures.
  - (iv) *Additional Guidance* – related to clarification of proposed guidance, additional examples, or other guidance.

See [December 2020 Agenda Item 8.2.1](#) for more details on the overarching themes identified during the preliminary analysis.

- (d) Several issues are dependent on the resolution of other higher-level issues (i.e., resolution of specific issues could indirectly resolve other issues). Therefore, it is important to manage the issues in a systematic way to ensure continued progress of the project.
10. Staff reviewed and analyzed each comment letter in NVivo (a data analysis software program) and considered the substance of individual comments made within each response. Staff:
- (a) Identified issues noted in each comment letter related to the SMCs and additional matters or recurring themes which require further consideration, and coded portions of each response to the relevant SMC or identified theme(s);
  - (b) Identified a comprehensive list of key issues and aggregated substantive comments to each identified issue (see list in Table 1 in [Agenda Item 5.2.8](#)). Since the EDs generally received support from constituents, the list of issues is a result of staff analysis focused on the areas where constituents indicated a need for further consideration; and
  - (c) Created a project timeline based on the nature of identified issues and how it would be framed in the overall flow of revenue transaction analysis.

Detailed NVivo reports are available at a Board member's request.

11. Staff will present its analysis of identified revenue issues to the Board throughout March and June 2021. See [Agenda Item 5.2.8](#) for the proposed project plan.

### Decision Required

12. No decision required. This agenda item is for information purposes only.



## **Considering Guidance in the Context of IPSAS Users**

### **Question**

1. Does the IPSASB agree that the nature of revenues in the public sector should be reflected in the title(s) of the proposed revenue standard(s) and be considered in the assessment of disclosure requirements?

### **Recommendation**

2. Staff recommend that the title(s) of the proposed revenue standard(s) be amended to better reflect the nature of revenue in the public sector when all key decisions have been made in the revenue project. The prevalence of different types of revenue in public sector should also be considered when staff assess disclosures in June 2021.

### **Background**

3. The IPSASB received a diversity of responses to the revenue EDs (see [December 2020 Agenda Items 8.3.1 and 8.3.2](#)). The IPSASB also instructed staff to consider the different types of revenue transactions prominent in the public sector, as it will inform on how best to address constituent concerns on disclosures.
4. To better understand and frame the analysis of ED responses, and consider the types of revenue transactions most prominent in the public sector, staff considered it helpful to examine the financial statements of different public sector entities and the prevalence of different types of revenue transactions. This will clarify the relative importance of the revenue transactions in relation to the guidance being developed.

### **Analysis**

5. The following analysis is intended to provide an overview of the types of revenue transactions most relevant to different levels of public sector entities, to inform decision-making on the revenue project on the presentation of revenue guidance and naming of the final revenue standard(s).
6. Based on the examples noted below, staff observe that the majority of revenue in the public sector was classified as revenue from non-exchange transactions under current IPSAS. Based on the descriptions available in the financial statement disclosures, these revenue streams would likely be classified as revenue without performance obligations covered in ED 71.

## Proportion of Revenue based on Current IPSAS Classification (Millions in Local Currency)

		Totals		ED 71		ED 70
Entity	Accounting Framework	ED 71	ED 70	Taxes & Levies*	Other**	Fees and other income
Federal Govt						
Philippines	PPSAS***	89%	11%	89%	0.2%	11%
Austria	BHG***	94%	6%	86%	8%	6%
State Govt						
Ontario	PSAB	87%	13%	70%	17%	13%
Zurich	HBR***	75%	25%	45%	30%	25%
Municipalities						
Auckland	NZ PBE***	78%	22%	39%	39%	22%
Birmingham	CIPFA / LASAAC	90%	10%	23%	67%	10%
International organizations						
UN	IPSAS	95%	5%	0%	95%	5%
European Commission	IPSAS	98%	2%	79%	19%	2%

\* Includes income and other taxes such as property taxes and fuel taxes. The European Commission amount includes GNI resources, a levy based on a percentage of gross national income.

\*\* Other non-exchange transactions that would likely be revenue accounted for under ED 71 include transfers, grants, and donations.

\*\*\*These accounting frameworks are based on IPSAS.

7. The prevalence of revenue without performance obligations also appears consistent with constituent responses received formally and informally through IPSASB and staff outreach initiatives.
8. This information:
  - (a) Helps inform staff's analysis of responses received and proposed changes;
  - (b) Confirms Board's decision to reorder the guidance to first present principles from ED 71, followed by ED 70;
  - (c) Informs staff's analysis on whether revenue guidance should be in one or two standards (see [Agenda Item 5.2.3](#)); and
  - (d) Supports revision of disclosure requirements, considering the prevalence, nature, and risk of public sector revenue and transfer expenses, in June 2021.
9. Furthermore, the proportion of different types of revenue in the public sector indicates a need to consider amending the title(s) of the future revenue IPSAS(s) to better reflect the nature of revenue in the public sector. Staff will propose amended title(s) for Board consideration after all key decisions have been made in the revenue project.

### Decision Required

10. Does the IPSASB agree with the Staff recommendation?

## **Options to Present Proposed Revenue Guidance**

### **Question**

1. Does the IPSASB agree that presenting revenue guidance as two separate standards (i.e., Option 1) is better from a public sector user perspective?

### **Recommendation**

2. Staff recommend revenue guidance be presented in two separate standards (Option 1): begin with guidance on revenue without performance obligations (ED 71) followed by guidance on revenue with performance obligations (ED 70), as this Option better reflects the prevalence of different public sector revenues transactions and address constituent concerns.

### **Background**

3. The draft standards issued in February 2020 had first presented accounting guidance for revenue with performance obligations (ED 70), followed by accounting guidance for revenue without performance obligations (ED 71).
4. Approximately 25% of respondents to ED 70 and ED 71 commented on the interrelation between the EDs and application of the proposed standards in practice (summarized in [Appendix 1](#)). The confusion as a whole is also linked with the difficulty distinguishing performance obligations (see [Agenda Item 5.2.5](#)).
5. Staff presented the overarching theme, Interrelation between EDs, at the December 2020 CAG and Board meetings, along with options on how to “structure” the revenue standards. CAG members provided advice for Board consideration on what Option would better serve public interest:
  - (a) CAG members generally favored Option 1 (two separate standards, beginning with ED 71). A smaller number preferred Option 2 (single standard, combining ED 71 and ED 70).<sup>3</sup>
  - (b) CAG members noted that regardless of which option is selected, the presentation and order of standards should address constituent concerns and guidance should still clearly distinguish between transactions with and without performance obligations. As such, guidance should be adjusted and repeated where necessary.
  - (c) CAG members also advised the Board to be mindful of the current project stage, and that usability will matter more to a user than IFRS alignment.
6. The IPSASB considered CAG member feedback and decided that proposed revenue guidance should be reordered. However, further consideration is necessary to determine whether the draft revenue guidance should remain as two separate standards (Option 1) or be combined into a single revenue standard (Option 2). The IPSASB instructed staff to perform a detailed analysis on the Options by considering and analyzing potential structures of revenue guidance under the Options to determine which would be more understandable, provide greater clarity, and better address constituents concerns.

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<sup>3</sup> In December 2020, the IPSASB decided to reorder the draft guidance in ED 70 and ED 71 to begin with ED 71. Option 1 was described as beginning with principles in ED 71 followed by the principles in ED 70. In substance, Option 1 proposes to continue with two separate standards. Option 2 was described as combining ED 70 and ED 71. In substance, Option 2 proposes to have a single revenue standard (first list principles from ED 71, followed by ED 70).

## Analysis

7. There are key takeaways from other Agenda Items relevant to this analysis:
- (a) Non-exchange transactions are most prevalent, representing a majority of revenues for different types of public sector entities (between 75-98%). Based on information available in sample financial statements and through outreach initiatives, these revenue streams would likely be classified as revenue without performance obligations. In comparison, revenue that would likely be classified as revenue with performance obligations comprise a minority portion of total revenues (between 2-25%). (**Overview of revenue**, see table in paragraph 6 of [Agenda Item 5.2.2](#))
  - (b) Revenue with performance obligations is distinctly different from revenue without performance obligations, and constituents have generally agreed that there are different types of revenue transactions and separate standards can address the accounting principles for these different transactions in the public sector. The different nature and inherent bias of performance obligations has accounting implications which warrant unique guidance to address the specific recognition and measurement considerations. (**Distinguishing revenue from performance obligations**, [Agenda Item 5.2.5](#))
8. Staff are of the view that there is a compelling case to give more prominence to revenue without performance obligations by leading with robust guidance on revenue transactions without performance obligations as a standalone revenue standard in the suite of standards (Option 1). This Option provides greater emphasis and clearer delineation between the different types of revenue transactions. An overview and assessment of the options is provided below.

### *Overview of Options*

9. Staff considered how the final revenue standard(s) would be presented under the two Options, which is summarized in [Appendix 1](#). Specifically, for each Option, staff considered:
- (a) How key accounting principles would be outlined;
  - (b) What the sections of guidance would be within the proposed standard(s); and
  - (c) Whether the envisioned standard(s) would be freestanding, and if repetition of guidance would be necessary to improve ease of application and overall readability.

Staff also created rough outlines of the revenue standard(s) under each Option, for illustrative purposes only, to assist with the objective assessment of options (see Option 1 in [Appendix 2](#), and Option 2 in [Appendix 3](#)).

### *Assessment of Options*

10. Staff considered which Option would better capture the nature and risk profiles of the different types of revenue transactions, and satisfy the concerns noted by some constituents (detailed assessment in [Appendix 1](#)). The following criteria were considered to objectively determine which Option:

Criterion	Better option
Better reflects the prevalence of revenues in the public sector	Option 1
Better reflects the differing nature and risks associated with the types of revenue transactions	Option 1
Is less complex and lengthy	Option 1
Requires less duplication of guidance to establish freestanding standard(s)	Option 2

11. On balance, Option 1 better captures public sector considerations, and emphasizes the prevalence of revenue without performance obligations in the public sector.

- (a) Under this Option, a standalone revenue standard (based on ED 71) would apply to the majority of public sector revenues (revenue from transactions without performance obligations), while the second revenue standard (based on ED 70) would apply to the unique subset of revenue transactions with a different nature and risk from other public sector revenues (revenue from transactions with performance obligations).
- (b) While Option 1 would require some duplication of guidance to enable each revenue standard to be freestanding, this duplication would likely reduce the complexity and ease of application of each respective standard by users. Staff intend to minimize the amount of duplication under Option 1 (i.e., duplicate guidance only where it is considered essential).
- (c) Furthermore, while IFRS alignment is not a key driver in the analysis, staff acknowledge that both options would align with IFRS principles, but Option 1 would provide a clearer perception of alignment and ease of subsequent updates for any future IFRS 15 amendments.

Thus, staff are of the view that Option 1 better addresses issues noted by constituents and provides the clearer, more understandable guidance, and final revenue guidance should be presented as two separate standards.

12. If the IPSASB agree to present revenue guidance using Option 1, staff will propose an approach to minimizing duplication across the two revenues standards in June 2021.

#### **Decision Required**

13. Does the IPSASB agree with the Staff recommendation?

## **Appendix 1 – Additional Details from Staff Analysis**

This appendix provides additional background on constituent comments regarding interrelation between the EDs and application of the proposed standards in practice, and staff's analysis on the two Options.

### *Key constituent comments*

1. Approximately 25% of respondents to ED 70 and ED 71 commented on the interrelation between the EDs and application of the proposed standards in practice. Based on staff's detailed analysis, key takeaways from these comment letters are:
  - (a) The EDs are individually complex and lengthy, and the interrelation between EDs is unclear.
  - (b) Consider combining the two EDs into a single standard. If proceed with two separate standards:
    - (i) Update to ensure that each proposed standard can "stand-alone": confirm principles and application guidance are sufficiently described in each standard where appropriate; align the accounting models; better explain cross references; elaborate on material components; repeat guidance and definitions if necessary;
    - (ii) Update ED 71 specifically to clearly distinguish recognition, measurement, presentation and disclosure for different revenue types in ED 71.
    - (iii) Provide additional non-authoritative guidance or other materials to summarize interrelationship between standards, clarify scope differences through visual tables, decision trees, or comprehensive lists, and other clarifications.
  - (c) The current structure causes confusion as transactions are "scattered" across the three EDs. One constituent recommended having two EDs, where each ED cover both the revenue and expenses side of the transaction type.<sup>4</sup>
2. These constituent comments inform on the objective criteria used by staff to determine which Option better serves public interest.

*Preliminary Overview of Options*

3. Staff considered how the final revenue standard(s) would be presented under Option 1 or Option 2.

Intention	Option 1: Two separate standards <i>Rearrange to begin with ED 71, followed by ED 70.</i>	Option 2: Single standard <i>Combine ED 70 and ED 71 into a single standard.</i>
<b>Principles</b>	<ul style="list-style-type: none"> <li>Each standard would clearly outline key accounting principles.</li> </ul>	<ul style="list-style-type: none"> <li>The single standard would clearly outline all key accounting principles related to revenue.</li> </ul>
<b>Standard(s) and sections</b>	<ul style="list-style-type: none"> <li>This option would result in two separate revenue standards.</li> <li>Sections within each standard would remain unchanged from the respective ED.</li> </ul>	<ul style="list-style-type: none"> <li>This option would result in a single revenue standard which would apply to all types of revenue transactions.</li> <li>Sections would be adjusted in certain areas to more effectively present principles and clearly differentiate which guidance pertains to which types of revenue transactions.</li> </ul>
<b>Applying the guidance</b>	<ul style="list-style-type: none"> <li>To enable each standard to be freestanding, improving ease of application and overall readability, some repetition is necessary.</li> <li>Guidance that is currently absent from the individual EDs would be duplicated in both standards to facilitate ease of application.</li> </ul>	<ul style="list-style-type: none"> <li>The proposed single standard would be freestanding.</li> <li>Guidance need not be repeated.</li> </ul>
<b>Rough outline</b>	<ul style="list-style-type: none"> <li><a href="#">Appendix 2</a> provides a summary of existing sections in the core text of the revenue EDs and guidance previously proposed in ED 70 and ED 71.</li> <li>Guidance within each section would be (1) consistent across standards<sup>5</sup>; (2) unique based on the revenue type(s) in scope of the proposed standard; or (3) hybrid, where necessary.</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">Appendix 3</a> provides a high-level list of proposed sections in the core text of the single revenue standard.</li> <li>Majority of guidance in each section would leverage existing guidance proposed in ED 70 and ED 71 and made succinct where necessary.</li> </ul>

<sup>5</sup> Staff wishes to highlight that “consistency” relates to general consistency in principles and guidance. However, the terminology and exact wording within this guidance may differ based on the specific attributes of the respective revenue type(s). Some guidance will be duplicated across standards if it applies to all revenue types.

## Assessment of Options

4. Staff assessed Option 1 and Option 2 based on the following objective criteria, to determine which Option better improves the understandability, clarity, and usability of future revenue guidance from a public sector user perspective.

Criterion	Better option	Analysis
<b>Reflects public sector</b>	Option 1	<ul style="list-style-type: none"> <li>• <a href="#">Agenda Item 5.2.2</a> (table in paragraph 4) illustrated that a large majority of public sector revenues are likely revenues without performance obligations.</li> <li>• One standard would reflect the majority of revenues for public sector entities, while the second separate standard would only relate to the specific subset of revenue transactions.</li> <li>• The presentation of accounting guidance under Option 1 would mirror the IPSASB's decision in December 2020 to revise disclosures based on the nature and risks of these transactions to the public sector.</li> </ul>
<b>Reflects differing nature and risks</b>	Option 1	<ul style="list-style-type: none"> <li>• The use of two separate standards best captures the different nature and risk profiles associated with the different types of revenue in the public sector. The second standard (ED 70) would only apply to a subset of revenues which represent a minority portion of public sector revenues.</li> <li>• In comparison, incorporating all revenue transactions into a single standard would not clearly distinguish the differing nature and risks associated with each type of revenue.</li> </ul>
<b>Complexity and length</b>	Option 1	<ul style="list-style-type: none"> <li>• Option 1 would be lengthier than Option 2 as some repetition of guidance in both standards would be necessary to become freestanding. Complexity would likely be reduced as a user would have all principles within each standard, except where a binding arrangement may include both present and performance obligations. Furthermore, the five-step revenue model is more easily identified.</li> <li>• Option 2 would be less lengthy. Guidance relating to performance obligation would essentially be "in addition to" preceding guidance on present obligations, emphasizing the distinction and any differences in accounting in separate paragraphs. However, complexity may not be reduced as the standard would include multiple subsections. This option results in the "dilution" of the five-step structure of the revenue model as the model is evolved to appropriately apply to ED 71 revenue transactions.</li> </ul>
<b>Duplication of guidance</b>	Option 2	<ul style="list-style-type: none"> <li>• Both Options would result in freestanding standards because each Option would include applicable principles.</li> <li>• However, Option 2 would be more understandable and readable. All revenue guidance would be located in one standard. A majority of guidance would apply to all revenue in the public sector. Additional guidance (i.e., select subsequent paragraphs) for revenue from binding arrangements with performance obligations would be clearly denoted. This Option would emphasize the distinction and enable the user to capture potential accounting differences. If no performance obligation exists, these paragraphs would be disregarded.</li> </ul>



Criterion	Better option	Analysis
		<ul style="list-style-type: none"><li>• In comparison, Option 1 would require duplication of guidance, which would not alleviate confusion, and would still require additional guidance to better distinguish which standard would apply to a transaction.</li></ul>

## Appendix 2 – Option 1: Two Separate Revenue Standards

The following table provides existing core text references for illustrative purposes only, to provide more detail on the envisioned rough outline of core text<sup>6</sup> under Option 1. Since this outline is for illustrative purposes only, it is not intended to be discussed in detail at the March 2021 meeting. Any Board members with comments are encouraged to contact staff offline.

Guidance within each section would be (1) consistent across standards<sup>7</sup>; (2) unique based on the revenue type(s) in scope of the proposed standard; or (3) hybrid, where necessary.

Section – Proposed guidance	Amended [draft] IPSAS [X] (ED 71)	Amended [draft] IPSAS [X] (ED 70)
<b>OBJECTIVE</b>	Unique	Unique
<b>SCOPE</b>	Unique	Unique
<b>DEFINITIONS</b>	Consistent	Consistent
<b>RECOGNITION</b>		
...of an asset arising from resource inflows	Consistent	Consistent
...existence of a binding arrangement	Consistent	Consistent
...of a liability arising from a binding arrangement with present obligations	Unique	Unique
...of revenue arising from a binding arrangement with present obligations	<b>Hybrid:</b> Consistent – identifying a binding arrangement Unique – timing of revenue recognition	n/a
...of revenue arising from a binding arrangement with performance obligations	n/a	<b>Hybrid:</b> Consistent – identifying a binding arrangement Unique – timing of revenue recognition
...of revenue arising from non-binding arrangement (without present obligations)	Unique	n/a
<b>MEASUREMENT</b>		
...of revenue arising from a binding arrangement with present obligations	Unique	n/a
...of revenue arising from a binding arrangement with performance obligations	n/a	Unique
...of revenue arising from non-binding arrangement (without present obligations)	Unique	n/a
...of a liability, initially	Unique	
...of receivables, subsequently	Consistent	Consistent
<b>TAXES</b>	Unique	n/a

<sup>6</sup> Application guidance would be rearranged according to the agreed-upon structure of the core text.  
<sup>7</sup> Staff wishes to highlight that “consistency” relates to general consistency in principles and guidance. However, the terminology and exact wording within this guidance may differ based on the specific attributes of the respective revenue type(s). Some guidance will be duplicated across standards if it applies to all revenue types.

## Agenda Item 5.2.3

Section – Proposed guidance	Amended [draft] IPSAS [X] (ED 71)	Amended [draft] IPSAS [X] (ED 70)
<b>SPECIFIC TRANSFERS</b>	Unique	n/a
<b>BINDING ARRANGEMENT COSTS</b>	Consistent	Consistent
<b>PRESENTATION</b>	Consistent	Consistent
<b>DISCLOSURES</b>		
...of revenue arising from a binding arrangement with present obligations	TBD – likely unique; will assess in Q2	n/a
...of revenue arising from a binding arrangement with performance obligations	n/a	Unique
...of revenue arising from non-binding arrangement (without present obligations)	TBD – likely unique; will assess in Q2	n/a
<b>EFFECTIVE DATE AND TRANSITION</b>	Consistent*	Consistent*

\* Differences between guidance on effective date and transition between the two standards are (1) related to references to existing IPSAS per respective scopes; and (2) ED 70 also provided an additional practical expedient relating to modified binding arrangements.

## Appendix 3 – Option 2: Single Revenue Standard

The following table provides existing core text references for illustrative purposes only, to provide more detail on the envisioned rough outline of core text<sup>8</sup> under Option 2. Since this outline is for illustrative purposes only, it is not intended to be discussed in detail at the March 2021 meeting. Any Board members with comments are encouraged to contact staff offline.

Applicability of specific sections of guidance is denoted with a “Yes”.

Section – Proposed guidance	Apply guidance to revenue type?		
	Revenue not from binding arrangement (BA)	Revenue from BA with present obligations	Revenue from BA with performance obligations
<b>OBJECTIVE</b>	Yes	Yes	Yes
<b>SCOPE</b>	Yes	Yes	Yes
<b>DEFINITIONS</b>	Yes	Yes	Yes
<b>RECOGNITION</b>			
<b>(A) Assess resource inflow</b>			
A1. Is there an asset to be recognized?	Yes – assessment required	Yes – assessment required	Yes – assessment required
A2. Does the inflow result from a contribution from owners?	Yes – assessment required	Yes – assessment required	Yes – assessment required
<b>(B) Type of arrangement</b>			
B1. Does the transaction arise from a binding arrangement?	Yes – assessment required	Yes – assessment required	Yes – assessment required
If yes to B1...			
B2. Are there present obligations?	n/a	Yes – assessment required	Yes – assessment required
B3. Are there performance obligations?	n/a	Yes – assessment required	Yes – assessment required
B4. Does the arrangement include both performance and present obligations?	n/a	Yes	Yes
<b>(C) Initial recognition</b>			
C1. Guidance for revenue not arising from a binding arrangement	Yes	n/a	n/a
C2. Liability arising from a binding arrangement, if applicable	n/a	Yes	Yes
C3. Guidance for revenue arising from a binding arrangement (with or without performance obligations)	n/a	Yes	Yes
C4. Additional guidance for revenue with performance obligations	n/a	n/a	Yes
<b>MEASUREMENT</b>			
D1. Guidance for revenue not arising from a binding arrangement	Yes	n/a	n/a
D2. Liability, if applicable	n/a	Yes	Yes
D3. Receivable, if applicable	n/a	Yes	Yes

<sup>8</sup> Application guidance would be rearranged according to the agreed-upon structure of the core text.

Section – Proposed guidance	Apply guidance to revenue type?		
	Revenue not from binding arrangement (BA)	Revenue from BA with present obligations	Revenue from BA with performance obligations
D4. Guidance for revenue arising from binding arrangement (with or without performance obligations)	n/a	Yes	Yes
D5. Additional guidance for revenue with performance obligations	n/a	n/a	Yes
<b>(E) SPECIFIC TRANSFERS</b>	Yes	Yes	n/a
<b>(F) BINDING ARRANGEMENT COSTS</b>	n/a	Yes	Yes
<b>PRESENTATION</b>			
G1. Minimum presentation required	Yes	Yes	Yes
G2. Additional presentation requirements for revenue arising from a binding arrangement (with or without performance obligations)	n/a	Yes	Yes
G3. Additional presentation requirements for revenue with performance obligations	n/a	Yes	Yes
<b>DISCLOSURES</b>			
H1. Minimum disclosures required	Yes	Yes	Yes
H2. Additional disclosures required for revenue arising from a binding arrangement (with or without performance obligations)	n/a	Yes	Yes
H3. Additional disclosures required for revenue with performance obligations	n/a	n/a	Yes
<b>(I) EFFECTIVE DATE AND TRANSITION</b>	Yes	Yes	Yes

## Clarifying Binding Arrangements

### Questions

1. Does the IPSASB agree the concept of a binding revenue arrangement remains fundamental for revenue accounting, and always contains at least one present obligation?
2. Does the IPSASB agree with the revisions and clarifications proposed to address constituent comments on binding arrangements?

### Recommendations

3. Staff recommend:
  - (a) *Retaining binding revenue arrangement as a core concept for revenue accounting* – Binding revenue arrangements contain at least one present obligation because, by definition, they are enforceable and convey rights and obligations; and
  - (b) *Revising guidance to clarify specific principles relating to binding arrangements* – Revise or expand existing guidance to clarify the concept of a binding revenue arrangement and address constituent comments as outlined in [Appendix 4](#).

### Background

4. ED 70 proposed guidance on the concept and identification of binding arrangements. Binding arrangements may have both performance obligations (accounted for using ED 70) and present obligations (accounted for using ED 71). The existence of a binding arrangement also underpins scoping considerations for ED 70. Constituents generally agreed or partially agreed with SMC 1 (totaling 77%) regarding the concept and the definition of a binding arrangement, and its role in identifying the scope of revenue transactions to be accounted for under ED 70.<sup>9</sup>

### Analysis

5. Staff considered the other comments in the responses and focused on areas where constituents disagreed or sought clarity. Comments from these respondents are generally raised in the context of jurisdictional distinctions and relate to a few specific topics:
  - (a) The concept of enforceability in identifying a binding arrangement;
  - (b) The criteria for a binding arrangement to be accounted for using the ED 70 five-step model (specifically the oral or written form of the binding arrangement, economic substance, and collectability); and
  - (c) Other comments relating to specific revisions to existing guidance, or further consideration of specific points.

While these comments have been aggregated into topics, staff noted that they were not individually significant nor pervasive across all responses. The detailed comments are provided and assessed in [Appendix 4](#).

6. The existence of a binding arrangement impacts the scoping and recognition of revenues. Clarifying the concept and identification of binding revenue arrangements will help the IPSASB and constituents

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<sup>9</sup> See detailed breakdown of responses to ED 70 SMC 1 in [December 2020 Agenda Item 8.3.1](#).

better understand the scope of the proposed revenue standards and application of the proposed accounting.

*The concept of a binding arrangement*

7. Revenue can arise from binding arrangements, or without binding arrangements as an inflow of resources without obligations. The IPSASB defined a binding arrangement as “*an arrangement that confers both enforceable rights and obligations on both parties to the arrangement*”<sup>10</sup> (emphasis added). The key components of this concept are enforceability, and rights and obligations.
  - (a) The concept of *enforceability* is integral to this definition and is the mechanism which makes an arrangement *binding*. This is because enforceability means that the involved parties are held accountable (i.e., “bound”) to the terms and conditions of the arrangement, and there is an ability to monitor whether the obligation is being satisfied, and that there are consequences from non-completion of such terms and conditions (i.e., there is little or no realistic alternative to avoid an outflow of resources). These consequences vary by binding arrangement and may be unique in each jurisdiction, and could be in the form of repayments, penalties, or impacts on future engagement. If an arrangement is not enforceable, it is not a binding arrangement. “Mechanisms” of enforceability are discussed in [Appendix 4](#).
  - (b) By definition, binding arrangements include *rights and obligations* for both parties. This means that all binding arrangements have one or more obligations arising because of their enforceability. As presented in the Conceptual Framework (the Framework), public sector entities can have a number of obligations, and obligations are present obligations when they are binding because there is little or no realistic alternative to avoid an outflow of resources.<sup>11</sup> As such, obligations from binding arrangements must include a present obligation(s) because they provide the ability to hold parties accountable to the outlined terms and conditions in the arrangement, and there is little or no realistic alternative to avoid the outflows should those terms not be adhered to. In other words, all binding arrangements as defined in ED 70 will always have at least one present obligation.
  - (c) All binding arrangements will include a present obligation(s). However, some binding arrangements may include performance obligations, which are a specific subset of a present obligation (as discussed in [Agenda Item 5.2.5](#)). Arrangements that are not binding are without obligations.
8. Based on the above, all binding revenue arrangements are, by definition, enforceable because they provide the ability to hold involved parties accountable for the fulfillment of the terms and conditions, and this accountability imposes little or no realistic alternative to avoid an outflow of resources. These obligations within binding arrangements are present obligations.
9. Staff propose that the above can be incorporated into the existing authoritative guidance to further clarify the accounting principle.

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<sup>10</sup> ED 70, paragraph 7. The IPSASB provided additional guidance in the core text and application guidance of ED 70, as well as in core text of ED 71.

<sup>11</sup> Present obligation is defined in the Conceptual Framework, paragraph 5.15.

*Summary of staff analysis of constituent comments*

10. Staff completed a detailed assessment of individual comments under each identified topic ([Appendix 4](#)). This assessment considered the substance of each comment and any jurisdictional nuances. Staff also proposed changes, if any, to address these comments.
11. Based on this detailed analysis, staff noted that while there is a variety of unique comments received from responses to the EDs, none of the comments are individually significant nor pervasive. Staff concluded that none of the comments would require the IPSASB to reassess or change core accounting principles in existing guidance. In other words, constituents did not disagree with the fundamental concepts presented in the proposed guidance. Rather, the comments indicate that updates to existing guidance would help constituents better interpret and apply the proposed standards.
12. Specifically, updates to existing guidance are to:
  - (a) Clarify:
    - (i) Enforceability can arise from various mechanisms, so long as the mechanism is able to be used to effectively hold the parties accountable;
    - (ii) Past history can be considered in the enforceability assessment;
    - (iii) How to consider termination clauses and appropriations when determining enforceability;
    - (iv) Parties identified in a binding arrangement must each have enforceable rights and obligations (otherwise, they are considered third-party beneficiaries); and
    - (v) The accounting principles around collectability.
  - (b) Add new or enhance existing basis for conclusions to better clarify the IPSASB's intentions around the means of enforceability, and consideration of past history in the assessment of enforceability.
13. These proposed changes would be considered concurrently with, or be addressed by, the planned change in presentation of revenue guidance (see [Agenda Item 5.2.3](#)). Under Option 1, guidance on binding arrangements would also be duplicated in ED 71 to help entities determine the appropriate scope and accounting treatment of transactions based on whether the parties have enforceable rights and obligations. Staff intend to minimize duplication.
14. If the IPSASB agrees with the staff recommendations in paragraphs 9 and 12, staff will draft proposed changes and additional guidance for a future Board discussion.

**Decision Required**

15. Does the IPSASB agree with the Staff recommendations?



## Appendix 4 – Additional Details from Staff Analysis

This appendix provides staff's detailed analysis of constituent comments. This analysis is grouped by topic.

### 1. **Defining binding arrangement: *Enforceability***

- (a) Most constituents which did not fully agree with SMC 1 had comments related to enforceability.
- (b) ED 70 proposed that enforceability<sup>12</sup>:
  - (i) Can be created through **legal or equivalent means**;
  - (ii) **Varies in practice and process** across jurisdictions, sectors, and entities; and
  - (iii) Is **imposed on both parties** in the binding arrangement.
- (c) Simply put, binding arrangements and enforcement of such arrangements can come in many different forms. Given the variety and differences across jurisdictions and environments, it is not feasible to create an exhaustive list of mechanisms to demonstrate enforceability. This influenced the IPSASB's decision to take a principled approach in developing the definition in ED 70, rather than being prescriptive by developing specific rules. Judgment is required when assessing whether an arrangement is binding in accordance with the principle, and entities need to assess if they are accountable for fulfilling a specific term or condition within their arrangement and the mechanisms in place within the respective jurisdiction or operating environment (e.g., jurisdictional laws, regulations and practices).

Constituent comments	Staff analysis
<b>(a) Legal or equivalent means – how enforceability is demonstrated</b>	
Some respondents asked the IPSASB to clarify how enforceability is demonstrated through <b>legal or equivalent means</b> , and explain which mechanisms allow for enforceability.	<u>Analysis:</u> As discussed in paragraph (c) above, enforceability can be demonstrated in numerous ways, and will differ by jurisdiction. ED 70 (specifically AG 9,11,13-19) currently provides authoritative guidance on how enforceability can be demonstrated through legal or equivalent non-legal means.
One respondent noted that enforceability should be clarified as “enforceable in <b>substance</b> ”, as enforcement mechanisms outside the legal system are always present to meet the description of “equivalent means”. A different constituent noted that enforceability in legal form prevails over enforceability in substance. Certain	Enforceability can be demonstrated in different ways in the public sector. This is exemplified in the AGs, which referenced legal system compulsions, legislation, cabinet or ministerial directives, judicial rulings, and case law precedence), executive authority, sovereign rights, and other enforcement mechanism outside the legal system. It should be noted that current proposed guidance does not rank enforceability mechanisms, but rather highlights potential sources of enforceability. This allows entities to objectively factor in specific binding arrangement and jurisdictional considerations. Some governments with sovereign rights may overcome legal liabilities in a court of law, while other governments may consider only the legal form of an arrangement rather than the substance. The objectivity in the proposed guidance enables entities to consider this in their analysis of whether their arrangement is enforceable.  The key factor is that each form of demonstration clearly denotes that the parties are <b>held accountable to fulfilling a specific promise</b> (paragraph 7(a)). Entities

<sup>12</sup> ED 70 paragraphs 9, AG7-24

Constituent comments	Staff analysis
<p>respondents noted their jurisdiction is solely governed / supported by laws or contracts.</p> <p>A few constituents noted that enforceability is difficult to determine in inter-department, inter-state, or inter-agency situations.</p>	<p>will need to consider the enforceability of its arrangements in the context of the environment (both legal, and non-legal) in which it operates.</p> <p><u>Proposed changes:</u> Proposed guidance can be revised to further clarify that enforceability can arise from various mechanisms, so long as the mechanism is able to effectively hold the parties accountable. A Basis for Conclusion can be added to clarify that the IPSASB did not intend for certain means of enforceability to be considered more demonstrative than other means (i.e., the IPSASB does not proposed primary vs. secondary forms of enforceability, as this will differ by jurisdiction).</p>
<p>Explain how to consider enforceability “<b>in substance</b>”. Certain arrangements may have legal substance without economic substance.</p>	<p><u>Analysis:</u> Arrangements that are enforceable in substance but without economic substance would not meet the criteria per ED 70.8 for the binding arrangement to be accounted for under ED 70’s five-step model. Revenue from such arrangements would be accounted under ED 71.</p> <p><u>Proposed changes:</u> Planned reordering and change in presentation of revenue guidance will help clarify accounting treatment of such arrangements. Binding arrangements that do not meet the criteria to be accounted for using the five-step model in ED 70 would be accounted for under ED 71.</p>
<p>One respondent proposed that enforceability be a <b>rebuttable presumption</b> that can later be disproved.</p>	<p><u>Analysis:</u> A binding arrangement inherently is enforceable for both parties (i.e., the arrangement is binding, and binding implies enforceability). A rebuttable presumption would not be appropriate as the lack of enforceability at inception would immediately scope the revenue transaction in ED 71, whereas the evidence of enforceability in an arrangement would result in a binding arrangement that may have components to be accounted for under ED 70.</p> <p><u>Proposed changes:</u> None, an enforceable arrangement either exists or does not exist. This is a necessary judgement call based on the terms and conditions of the arrangement.</p>
<b>(b) Other considerations – enforceability given unique differences in practice and process</b>	
<p>Some respondents were uncertain whether <b>existence or lack of past experience</b> (i.e., history of enforcement or history of compliance) is an appropriate consideration in reaching conclusion on enforceability. A few other respondents noted that <b>past enforcement</b> as noted in AG24 should be from both parties, and not just with respect to purchasers’ enforceability. One respondent questioned</p>	<p><u>Analysis:</u> As discussed earlier, enforceability can come in many forms and through different mechanisms in various jurisdictions and environments. ED 70 AG24 noted that an entity should consider past history of enforcement when assessing whether an arrangement is enforceable. This is because in some jurisdictions, specific terms and conditions may be included in arrangements that are intended to enforce the rights and obligations of the involved parties. However, past history of not enforcing such terms would indicate that such terms do not in substance hold the other entity accountable. In other words, consideration of history of enforcement is not intended to override, but rather, contribute to the overall analysis of enforceability and whether the entities can objectively be held accountable to the agreed upon rights and obligations.</p> <p>Furthermore, a history of compliance is not relevant to the assessment of enforceability from an accounting perspective as compliance does not provide any indication of whether one party can hold the other accountable for satisfying the</p>

Constituent comments	Staff analysis
<p>whether past history should be permitted to override enforcement power. One respondent requested additional Application Guidance.</p>	<p>agreed-upon obligation. However, an entity may consider history of compliance when transacting with the other entity for future funding and entering future arrangements.</p> <p><u>Proposed changes:</u> Clarify ED 70 AG24 (which would be duplicated in ED 71 if the IPSASB chooses to have two separate standards per Option 1) and add to the Basis for Conclusions to clarify that consideration of past history is intended to aid in the assessment of enforceability.</p>
<p>A few constituents noted that <b>termination clauses and appropriations</b> should be further considered in regard to how it impacts the assessment of enforceability.</p>	<p><u>Analysis:</u> ED 70 paragraph 11 indicated that a binding arrangement does not exist if each party has the unilateral enforceable right to terminate a wholly unperformed binding arrangement without compensation the other party or parties. In such arrangements, neither party is able to hold the other parties in the arrangement accountable for fulfilling the specified promises in the terms and conditions. In other words, when there is a termination for convenience clause without such penalties, no party in the arrangement is bound to terms and conditions, and thus the arrangement would not be enforceable (thus not a binding arrangement).</p> <p>Staff acknowledge that appropriations are common in the public sector and may be included in arrangements as an explicit term or condition (either in writing, orally, or implied through customary practices). Appropriations may come in different forms and vary by jurisdiction: for example, appropriations could relate to capped funding amounts, or as a tool to rescind funding at the discretion of the transfer provider (which would be similar in substance to a unilateral termination clause without penalty). As such, appropriations on its own do not prove nor refute the existence of enforceability within an arrangement; rather, it should be considered concurrent with other mechanisms of enforceability. An entity must assess the unique terms and conditions of each arrangement, in their specific jurisdiction, when determining the enforceability of the arrangement (i.e., if there is a binding arrangement).</p> <p><u>Proposed changes:</u> Amend existing application guidance in ED 71 to clarify treatment of appropriations as it relates to termination clauses and the assessment of enforceability. This can be addressed as part of the planned change in presentation of revenue guidance (see <a href="#">Agenda Item 5.2.3</a>).</p>
<p><b>(c) Involved parties – enforceability is imposed on both parties</b></p>	
<p>One constituent questioned whether ED 71 paragraph 29 is appropriate, and if enforceability should instead be based on transaction characteristics.</p> <p>Another respondent noted enforceability could depend solely on customer capacity to enforce rights.</p>	<p><u>Analysis:</u> ED 71.29 stated that tax laws and regulations do not create binding arrangements (because there are only enforceable rights and obligations on one party).</p> <p>The IPSASB defined a binding arrangement as an arrangement that confers enforceable rights and obligations on <u>both</u> parties to the arrangement. The enforceability on both parties is further described in ED 70, AG13. Transactions which confer rights and obligations only to one party, not both parties, would not meet the definition of a binding arrangement.</p> <p><u>Proposed changes:</u> It would be useful to include guidance on binding arrangements in ED 71 to help entities determining the appropriate scope and</p>

Constituent comments	Staff analysis
	accounting treatment of transactions based on whether the parties have enforceable rights and obligations. This can be addressed through the planned change in presentation of revenue guidance (see <a href="#">Agenda Item 5.2.3</a> ).
A few constituents requested IPSASB broaden the definition to align with IFRS 15 and refer to multiple parties (two or more).	<p><u>Analysis:</u> ED 70 AG22 noted that three-party arrangements are common in the public sector but third-party beneficiaries do not always have any rights to force the entity to deliver goods and services. One respondent noted that some arrangements may include more than two parties (such as a treaty between governments that establishes an intergovernmental organization and confer enforceable rights and obligations on the intergovernmental organization and on its member states).</p> <p>Staff acknowledge that if there are multiple parties in an arrangement, and each party has its own enforceable rights and obligations within the arrangement, then the binding arrangement would have two or more parties.</p> <p><u>Proposed changes:</u> Provide application guidance to clarify that parties identified in a binding arrangement must each have enforceable rights and obligations. Parties noted within a binding arrangement that do not have enforceable rights and obligations are considered third-party beneficiaries.</p>

**2. Criteria for a binding arrangement to be accounted for under ED 70's five-step model:**

- (a) ED 70 paragraph 8 proposed that a binding arrangement should be accounted for using ED 70's five-step accounting model when five criteria are met. Some constituents had comments on criterion 8(a), (d), and (e).

Constituent comments	Staff analysis
<b>(a) Form</b> – The parties to the binding arrangement have approved the binding arrangement in writing, orally, or implied through customary practices, and are committed to performing their respective obligations.	
Some constituents were unsure if oral or verbal terms, digital signatures, or informal communications like email, confer enforceable rights and obligations.  Certain arrangements are imposed by legislature only, without agreements.	<p><u>Analysis:</u> Oral terms and digital communications may confer enforceable rights and obligations on the parties. Staff also acknowledge that certain arrangements may not arise from written agreements, but rather from legislative means.</p> <p>Staff is of the view that the form of an arrangement is not to be considered in isolation but concurrent with other demonstrations of enforceability (as described above). The guidance proposed in ED 70 AG10-11 is intended to encourage entities to consider all types of arrangements (i.e., binding arrangements are evidenced in different ways and can arise outside of written legal agreements).</p> <p><u>Proposed changes:</u> None.</p>
<b>(d) Economic substance</b> – i.e., the risk, timing or amount of the entity's future cash flows or service potential is expected to change as a result of the binding arrangement.	
Difficult to determine which ED applies for obligations with no economic	<u>Analysis:</u> The lack of economic substance would preclude the arrangement from being accounting for the binding arrangement using the five-step model. Binding arrangements that did not meet all criteria would apply ED 70.14. Arrangements

Constituent comments	Staff analysis
substance, or where transaction price does not equate value of goods or services, which are common.	that are not binding are accounted for under ED 71 as revenue without present obligations.  <u>Proposed changes:</u> Planned change in presentation of revenue guidance will help clarify scoping. Binding arrangements that do not meet the criteria to be accounted for using the five-step model in ED 70 would be accounted for under ED 71.
<b>(e) Collectability</b> – It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the purchaser or third-party beneficiary. Consider only the purchaser's ability and intention to pay that amount of consideration when it is due.	
<p>A few constituents noted confusion on how to consider implicit price concessions in the assessment of collectability, and whether binding arrangements would include revenue from sales made below market price, or revenue where the entity may not attempt to collect the amount charged.</p> <p>One of these constituents noted that it is difficult, onerous, and there is a high risk of error in assessing a counterparty's ability and intention to pay, and whether an implicit price concession is being granted, at inception. The constituent also noted uncertainty on how to subsequently recognize full collection (i.e., change in collection from inception).</p>	<p><u>Analysis:</u> Staff acknowledge that public sector entities, particularly government entities, may provide services without regard to a customer's willingness or ability to pay. These transactions have implicit price concessions, and the entity would be transacting below market price. Staff recognize it may be difficult in practice to assess collectability in the public sector, and highlight that collectability is assessed upon entering the arrangement (i.e., at inception).</p> <p>An implicit price concession is provided and relatively known by the involved parties at the inception of the arrangement (either implicitly or explicitly, and potentially informed by history with the engaged party). Price concessions inform the transaction price / consideration within the arrangement. The collectability assessment posed in ED70.8(e) is intended to be assessed at inception based on the entity's best estimate using judgment of the risks associated with the counterparty and the specific binding arrangement entered into.</p> <p>For example, if a government provides services valued at 100 CU, but the implicit price concession is 20 CU, then the government's expectation at inception is that it will collect 80 CU from the other party.</p> <p>This differs from actual consideration collected subsequently, which may differ from initial assessment due to changes in conditions or expectations after inception. This change would represent impairment (i.e., decline from initial circumstances), or full recognition (i.e., if the party is able to collect full consideration, exceeding what was expected during assessment at inception).</p> <p>Following the example, the government may eventually collect 75 CU, which would represent a 5 CU impairment from the expected 80 CU implicit price concession provided at inception.</p> <p>An entity would need to apply judgment in considering the facts and circumstance when entering into the agreement, to assess the purchaser's ability and intent, at inception, to pay the expected amount at a future date.</p> <p><u>Proposed changes:</u> Add application guidance to clarify the accounting principle around collectability.</p>
One constituent noted that transactions related to the binding arrangement which	<u>Analysis:</u> The lack of probable collectability would preclude the arrangement from being accounting for the binding arrangement using the five-step model. Binding arrangements that did not meet all criteria would apply ED 70.14. Arrangements

Constituent comments	Staff analysis
do not meet this criterion would not be recognized, and result in recognition on cash basis, which would not be appropriate for public sector.	that are not binding are accounted for under ED 71 as revenue without present obligations.  <u>Proposed changes:</u> Planned change in presentation of revenue guidance will help clarify scoping. Binding arrangements that do not meet the criteria to be accounted for using the five-step model in ED 70 would be accounted for under ED 71.

3. **Other comments:**

- (a) A few constituents requested specific revisions to existing guidance, or further consideration of specific points.
- (b) Some respondents also preferred retaining exchange vs. non-exchange distinction.<sup>13</sup>

Constituent comments	Staff analysis
One constituent requested that key points from AG7-12 be brought into the core text to better distinguish enforcement mechanism outside of legislations.	<u>Analysis:</u> See staff analysis above in Section 1.  <u>Proposed changes:</u> See staff proposal above. Basis for Conclusions can also be added to clarify Board discussions on enforceability.
One constituent noted that the current definition does not encompass user charges, or “taxes from entry fees”.  A few international organizations noted that the current description of enforceability would result in a significant number of arrangements to be out of scope.	<u>Analysis:</u> Revenue earned from user charges and entry fee taxes would not confer enforceable rights and obligations on all parties in the arrangement. Other arrangements that do not meet the criteria for enforceability would also not confer enforceable rights and obligations on all parties.  These transactions would not qualify as arising from a binding arrangement and be accounted for as revenue arising without a binding arrangement in ED 71.  <u>Proposed changes:</u> None.
One constituent preferred the definition align with the existing IPSAS 35, <i>Consolidated Financial Statements</i> definition.	<u>Analysis:</u> The IPSASB decided on the definition of a binding arrangement in September 2018, which was documented in ED 70 Basis for Conclusion paragraph 24.  <u>Proposed changes:</u> None.
It is not appropriate for accounting requirements to dictate how entities should	<u>Analysis:</u> Staff acknowledge that the proposed guidance may have an impact on how entities choose to engage in future transactions. The proposed principles, particularly for revenue arising from binding arrangements, entail a higher level of

<sup>13</sup> This comment on retaining exchange vs. non-exchange distinction was not further considered as the Board previously made the decision on terminology.

Constituent comments	Staff analysis
<p>contract (which was a consequence of applying IFRS 15).</p>	<p>detail and specificity, which entities may choose to incorporate into future arrangements in written form.</p> <p>The for-profit sector also anticipated that adoption of the new revenue standard (IFRS 15) was not only an accounting change but also imposed potentially significant effects on other organizational activities, operations, processes, systems, and functions. The scale of this wider impact varied by industry and existing relationships, but overall would achieve a more consistent accounting of economically similar transactions. The anticipated change to systems and processes also contributed to the IASB's decision to provide a longer period between issuance and the effective date of IFRS 15.<sup>14</sup></p> <p>Staff are of the view that clearer binding arrangements would better capture the risks associated with enforceable revenue transactions, thereby supporting good public financial management, and drive better business practices. This would have long-term benefits from a public interest perspective.</p> <p><u>Proposed changes:</u> None.</p>

<sup>14</sup> IFRS 15 included a section in its Basis for Conclusions on Analysis of effects of IFRS 15. See also: IFRS 15 BC453B, BC462). Expected impacts were also mentioned in IFRS 2014 "[Project Summary](#)", EY 2020 "[A Closer Look at IFRS 15](#)", EY 2018 "[How IFRS will change accounting for revenue recognition and leases](#)", and Deloitte 2018 "[Revenue from Contracts with Customers, a guide to IFRS 15](#)".



## **Distinguishing Revenue from Performance Obligations as a Separate Type of Revenue**

### **Question**

1. Does the IPSASB agree that revenue transactions arising from binding arrangements with performance obligations continue to be distinguished as a separate type of revenue?

### **Recommendation**

2. Staff recommend:
  - (a) Maintaining the distinction between revenue from binding arrangements with performance obligations and revenue from binding arrangements without performance obligations; and
  - (b) Clarifying the distinction in the Application Guidance.

### **Background**

3. Over 80% of respondents to the 2017 Consultation Paper<sup>15</sup> agreed or partially agreed that there are different types of revenue transactions and separate standards can address the accounting principles for these different transactions. Respondents noted that some concepts in the existing exchange/non-exchange approach in IPSAS 23 were difficult to apply in practice for revenue accounting. Given this feedback and subsequent discussions, the IPSASB decided to move away from the exchange/non-exchange distinction and developed accounting approaches based on whether the transaction is with or without performance obligations.<sup>16</sup>
4. Responses to the EDs reiterate constituents' general support that there are different types of revenue.<sup>17</sup> Staff considered the other comments to the ED and focused on areas where constituents disagreed or sought clarity. 26% of respondents noted the described difference between revenue with performance obligations and revenue without performance obligations (specifically, revenue from binding arrangements with present obligations) is unclear conceptually or difficult to apply in practice. These comments relate to two overarching themes presented to the IPSASB and the CAG in December 2020: the interrelation between EDs, and application in practice.
5. Clearly distinguishing the two revenue types will minimize complexity, highlight potential accounting differences, and improve the understanding and application of proposed guidance. It will also inform on whether the revenue guidance should be presented in one or two revenue standards (see [Agenda Item 5.2.3](#)).

### **Analysis**

#### *Considering constituent feedback*

6. Staff noted that constituents did not generally disagree with the IPSASB's decision to have separate types of revenue transactions nor the principles proposed in the EDs. Rather, some constituents did

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<sup>15</sup> See staff analysis of constituent responses to preliminary views on revenue transaction types, presented in [March 2018, Agenda Items 10.3.1 and 10.3.3](#).

<sup>16</sup> ED70, BC3

<sup>17</sup> Most constituents agreed or partially agreed with the principles and concepts which delineated revenue transaction types and respective accounting treatments in both EDs. While not presented as a standalone SMC, staff noted support in responses to ED 70 SMC 1 and SMC 3, and ED71 SMC 1, which most closely related to the delineation and separate accounting of different types of revenue (see [December 2020 Agendas Item 8.3.1 and 8.3.2](#)).



not find the distinction to be sufficiently clear or useful in applying the standards. Some key comments from these respondents are:

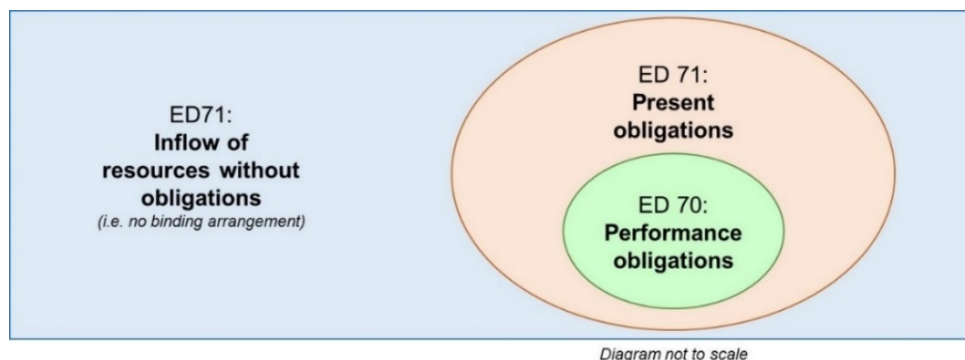
- (a) The sole difference between the ED 70 and ED 71 appears to be arbitrary and is, in their view, “without distinction”. Some explained that this related to difficulties determining if there is a 3<sup>rd</sup> party beneficiary, which amplifies difficulty in analyzing whether a transfer of control occurs. A few considered the bifurcation to be “artificial” and thus not useful, which may lead to subjective (and thus inconsistent) application. In turn, this may result in a less meaningful financial statements due to reduced understandability, transparency, clarity, and accountability.
  - (b) For some entities or jurisdictions, arrangements often contain both types of revenue transactions, and thus split across both EDs.
  - (c) The two types of obligations can be treated the same by analogy, and they may lead to the same accounting result.
7. Considering feedback from the CP and ED processes altogether, staff are of the view that the difficulty applying the existing exchange / non-exchange concept in existing IPSAS did not arise from the underlying economic concept but rather from the definitions of exchange and non-exchange revenue transactions and the use of this distinction to classify and account for revenue. While the Board decided to move away from using the exchange and non-exchange distinction to classify revenues, the concept itself still exists economically and can be used to describe the nature of different types of revenue transactions (i.e., exchange or non-exchange can still be a descriptor).
8. With this feedback in mind, Staff note there is a strong case to maintain separate types of revenue transactions, and to provide additional analysis below to clarify the distinction between revenue with and without performance obligations. This distinction is based on their unique nature and risk profile, which would further strengthen the need for separate accounting for the two types of revenue transactions.

*Performance obligations are a subset of present obligations*

9. A performance obligation is a specific subset of present obligations (i.e., all performance obligation are present obligations, but not all present obligations are performance obligations). The key differentiator proposed in ED 70 and ED 71 is that a performance obligation embodies a **transfer of a distinct good or service to a purchaser or third-party beneficiary**<sup>18</sup>. The majority of revenue transactions in the public sector do not include performance obligations (see [Agenda Item 5.2.2](#)).

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<sup>18</sup> ED 70, paragraph AG34



10. As noted in [Agenda Item 5.2.4](#), all binding arrangements have an obligation: either a present obligation, or a performance obligation. Both present obligations and performance obligations:
- (a) Result in an outflow of resources with little or no realistic alternative to avoid such an outflow. This means that both types of obligations are enforceable; and
  - (b) Are, conceptually, “units of account” to determine the distinct components within a binding arrangement, and a mechanism for the measurement (i.e., determining and allocating transaction price) and recognition of revenue (i.e., at a point in time and over time).

*Differences warranting separate accounting*

11. As mentioned in paragraphs 3 and 4, responses received during the CP and ED processes indicated that constituents generally supported different types of revenue. However, additional clarification is beneficial to address concerns of the other constituents. Staff proposes that the two types of revenue are differentiated further by their nature and risks:

Consider	Staff analysis
Nature	<p><b>Exchanging value through provision of specific goods and services.</b></p> <p>Performance obligations involve a transfer of consideration for goods or services (i.e., exchanging value through provision of specific goods or services). Performance obligations embody an intention to exchange with another party by transferring a specified good or service.</p> <p>Revenue from transactions without performance obligations, the majority of revenue transactions in the public sector, generally do not embody an exchange.</p>
Risks	<p><b>Inherent bias of recognizing revenue differs.</b></p> <p>The unique nature of performance obligations entails different inherent biases. These inherent biases drive the timing of revenue recognition as control is transferred or a liability is settled in a specific transaction.</p>

12. A few constituents indicated a formal checklist of indicators would be useful to help identify performance obligations. Staff note that revenue accounting is driven by the specific terms, conditions, and promises within the binding arrangement. Entities will need to apply judgment to determine whether there is a performance obligation, and a checklist would not be appropriate.

*Accounting implications – identify specific units of account to more precisely determine and measure transfer of control*

13. Building on paragraph 10, both present and performance obligations are a means to separate the multiple components of a revenue arrangement into **units of account**. Given its unique nature and risk profile, performance obligations have greater specificity and **clearer transfer of control**<sup>19</sup> to inform on the appropriate **timing of recognition and measurement of revenue**. In other words, separate identification and accounting for performance obligations enables a more **objective** analysis of the transfer of control for each unit of account in a binding arrangement. This necessitates different and additional guidance that can enable an entity to conduct the more precise accounting and analysis of the transfer of control required for units of account from performance obligations.
14. Performance obligations must be appropriately identified as individual units of account because the measurement and recognition of revenue is then based on these identified units of account. When performance obligations are not properly identified in Step 2:
- (a) Revenue related to each obligation may not be properly measured, as the allocation of the transaction price to the identified units of account would not appropriately reflect the value of the obligation (Step 4). Specifically, the entity would not be able to objectively allocate an amount that depicts the consideration it expects to be entitled to in exchange for transferring the promised goods or services to the purchaser or third-party beneficiary<sup>20</sup>. If the entity is not able to objectively allocate the transaction price to a specific transfer of goods or services, Step 2 should be revisited to consider if performance obligations have been appropriately identified;
  - (b) Revenue may not be appropriately recognized at the appropriate time and the financial statements would not correctly reflect the transfer of control of resources or settlement the liability (i.e., reflect the economic events as the entity satisfies the obligation) that occurred in the reporting period (Step 5); and
  - (c) Revenue may not be properly disclosed based on its transaction type or in the period in which the transfer of control occurred (or did not occur).

In other words, if the analysis is not properly conducted to identify the units of account, an entity cannot accurately and objectively allocate transaction price to the respective units of account and recognize and disclose the revenue in a way that objectively shows the transfer of control. The nature and inherent bias of a performance obligation pose recognition and measurement complexities that necessitate a more precise accounting. A greater level of specificity, through separate identification and accounting for performance obligations, enables a more objective analysis of the transfer of control and informs the objective allocation of transaction price to the identified obligations in the binding revenue arrangement. See further details on the differences in recognition and measurement in [Appendix 5](#).

15. When performance obligations are properly identified and separately accounted for from other components in a binding revenue arrangement, differences in the overall timing and amount of revenue recognized (from that binding arrangement as a whole) may arise because the transfer of control for performance obligations is sufficiently specific and separately identifiable from other

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<sup>19</sup> The transfer of control is the transfer of a distinct good or service from the entity to a purchaser or third-party beneficiary. Control is the ability to direct use of or obtain substantially all of the economic benefits or service potential from the good or service (or prevent others from doing so).

<sup>20</sup> ED70.72

promises in the binding arrangement. The extent of these differences will depend heavily on the facts and circumstances of the binding arrangement. Thus, judgment is required.

*Next steps*

16. Based on the above analysis, staff conclude that revenue transactions with performance obligations are differentiated from other revenue transactions by its unique nature and risk profile. This difference entails a specific and clear transfer of control, requiring a more precise accounting and analysis of the transfer of control for each unit of account. This has implications on the pattern of revenue recognition, and the measurement of revenue being recognized.
17. The difference and accounting implications of revenue from binding arrangements with performance obligations can be clarified:
  - (a) As part of the implementation of the Board's decision on whether revenue guidance should be in one or two standards (see [Agenda Item 5.2.3](#)), and
  - (b) Through revisions and additions to existing Application Guidance to expand on and clarify the principles in existing core text.

**Decision Required**

18. Does the IPSASB agree with the Staff recommendation?

## **Appendix 5 – Additional Details from Staff Analysis**

This appendix provides staff's detailed analysis of the recognition and measurement differences between revenue from binding arrangements with performance obligations, and revenue from binding arrangements without performance obligations.

### **1. Recognition – key differences:**

- (a) *Units of account used for recognition* (Step 2) – A binding arrangement with performance obligations may contain a larger number of components and a different timing of recognition due to its nature and risk profile. This is because performance obligations more readily provide objective, readily observable evidence of the transfer of control of the goods or services, which may not apply to all goods or services in the arrangement. Because of the greater specificity, clearer transfer of control, and the existence of a beneficiary for performance obligations, binding arrangements with performance obligations may be separated into more detailed units of account. In comparison, revenue without performance obligations (i.e., without an exchange of value by transferring a distinct good or service) would fulfill a wholistic public sector aim or a compliance requirement. The potential lack of distinction of goods and services from this overall service or compliance objective and insufficient specificity may result in a smaller number of components (i.e., multiple goods or services may be grouped as a “general” service delivery objective, resulting in fewer separately identified obligations).
- (b) *Timing of recognition* (Step 5) – The number of components (units of account) per above may impact the timing of recognition across different reporting periods. The distinct exchange nature and risk profile of performance obligations necessitate a more precise accounting and analysis of transfer of control (over time or at a point in time) for each unit of account. The pattern of revenue recognition would have greater detail and precision since the transfer of control for performance obligations is more specific and identifiable.

### **2. Measurement – key differences:**

- (a) *Determining transaction price* (Step 3) – The transaction price in a binding arrangement with performance obligations is based on the amount an entity is entitled in exchange for transferring control of promised goods or services to a purchaser or third-party beneficiary, with adjustments for amounts on behalf of third parties. In comparison, the transaction price for revenue without performance obligations (i.e., without an exchange of value by transferring a distinct good or service) is based on the amount of inflows expected. The lower level of specificity related to such arrangements or obligations may require less judgment by the transfer recipient when determining the transaction price.
- (b) *Allocating transaction price across the identified units of account* (Step 4) – The nature and risks of performance obligations may result in a more complex allocation of transaction price to the identified components (units of account), as there is an objective and specific transfer of control. This allocation may entail more estimates and judgment compared to the allocation for revenue without performance obligations, which likely has fewer components and different risk profile. Binding arrangements with partial or full exchange objectives may include refund liabilities, consideration payable to a purchaser, or greater ranges in possible consideration amounts.

## **Transactions with Components within the Scope of Both Standards**

### **Question**

1. Does the IPSASB agree with staff's proposed amendments to the guidance on transactions with components within the scope of both proposed revenue standards?

### **Recommendation**

2. For revenue transactions with components which may fall into ED 70 and ED 71, staff recommend:
  - (a) In cases where there is objective evidence that a portion of consideration relates to the transfer of distinct goods or services to the purchaser/transfer provider or a third-party beneficiary, disaggregate the transaction price and account for the component(s) that relates to the transfer of distinct goods or services in accordance with ED 70, then use ED 71 to account for any remaining component(s); and
  - (b) For all other cases (i.e., situations where it is unclear whether a portion of consideration relates to the transfer of distinct goods or services), account for the transaction in accordance with ED 71.

### **Background**

3. In ED 70 and ED 71, the IPSASB proposed guidance on transactions with components with performance obligations and components without performance obligations (also known as "hybrid transactions"). In the EDs, the IPSASB proposed that:
  - (a) There is a general rebuttable presumption that the transaction price in a hybrid transaction is wholly related to the transfer of goods or services;
  - (b) This presumption can be rebutted if the terms of the binding arrangement clearly specifies that only a portion of the consideration is to be returned to the purchaser in the event that the entity does not deliver the promised goods or services, as this indicates that the remaining consideration clearly does not relate to the transfer of goods or services; and
  - (c) If the presumption is rebutted, the portion of the transaction price which relates to the transfer of goods or services shall be accounted for under ED 70, while the remainder of the transaction price shall be accounted for in accordance with ED 71.<sup>21</sup>
4. The IPSASB requested constituents to comment on the above proposals in SMC 3 of ED 70. Although approximately 75% of respondents agreed or partially agreed with the proposals<sup>22</sup>, a number of fundamental issues were raised by constituents:
  - (a) The logic of the rebuttable presumption appears to be flawed as it requires the entire transaction price to be allocated to performance obligations in situations where it is difficult to distinguish between components with and without performance obligations or difficult to determine if a performance obligation exists. This presumption contradicts the requirement for a performance obligation to *clearly* involve the transfer of distinct goods or services. Put another way, it is logically inconsistent to require the application of ED 70, where an entity must identify performance obligations (Step 2 of the 5-step model in the ED) and allocate the

<sup>21</sup> ED 70, paragraphs AG69-AG70 and ED 71, paragraph 9.

<sup>22</sup> See detailed breakdown of responses to ED 70 SMC 3 in [December 2020 Agenda Item 8.3.1](#).

transaction price to individual performance obligations (Step 4) to an arrangement when it is unclear if the arrangement actually contains performance obligations;

- (b) Some constituents noted that hybrid transactions are frequent and common in their jurisdiction, and such mixed revenue transactions are usually driven by activities which do not involve performance obligations. (e.g., the transfer recipient would not have carried out these transactions if there was no need for activities such as fundraising.) These constituents noted a preference to account for such transactions under ED 71; and
  - (c) Other constituents noted that the IPSASB did not provide sufficient reasoning for departing from IPSAS 23, where transactions with both exchange and non-exchange components were treated in their entirety as non-exchange transactions. These constituents also preferred to account for the entire hybrid transaction under ED 71.
5. Some constituents agreed with the proposed principle of disaggregating hybrid transactions, but noted the following concerns:
- (a) It may be very difficult or costly to disaggregate hybrid transactions, especially when the resulting accounting could be essentially the same under both ED 70 and ED 71. Furthermore, disaggregation of such transactions may not necessarily provide more transparency or accountability. Therefore, it will be more effective to simplify the standard by accounting for entire transaction under one of the EDs in all instances or by accounting for the entire transaction based on its predominant element;
  - (b) More application guidance and examples are needed to deal with the practical challenges of applying the proposed guidance;
  - (c) There should be explicit guidance indicating that the disaggregation of revenue at the individual binding arrangement level is not necessary if disaggregation will not have a material impact to the overall financial statements;
  - (d) The guidance on hybrid transactions relate more to scoping between ED 70 and ED 71, but it is currently located within Step 3 of the revenue recognition model in ED 70; and
  - (e) Disaggregation of hybrid transactions should be within the principles in the core text, not just the applicable guidance.

### **Analysis**

- 6. Staff noted that in situations where there is objective evidence that a component of a hybrid transaction clearly relates to performance obligations while another component does not, these components are economically two separate transactions and should be accounted for as such. Therefore, staff recommends retaining the requirement to disaggregate hybrid transactions when objective evidence supporting separation, such as explicit refund terms for a specified amount of the transaction price, exists.
- 7. However, staff agree that requiring ED 70 to be applied to situations where it is unclear if components relating to performance obligations exist does contradict the requirement for performance obligations to have a transfer of distinct goods or services.
- 8. As discussed in Agenda Items [5.2.2](#), [5.2.3](#), and [5.2.5](#), the majority of revenue transactions in the public sector relate to transactions without performance obligations. Therefore, it does appear

contradictory to apply ED 70 in all situations (either to a specific component if the presumption noted in paragraph 3(a) is rebutted, or to the entire transaction if it is not). It would be more consistent with the overall spirit of the suite of revenue standards, and more reflective of the public sector, to apply ED 71 to situations where it is unclear if there are components with performance obligations.

9. As a result, in addition to the recommendation in paragraph 6, staff also recommend that in situations where there is no clear and objective evidence that a component of the transaction relates only to performance obligations, the entire transaction is to be accounted for using ED 71.
10. In the staff's view, these revisions effectively address all of the fundamental issues noted in paragraph 4 as well as the concerns noted in paragraph 5, because:
  - (a) By not requiring the use of ED 70 in all situations, the logic flaw in the rebuttable presumption no longer exists. The revised guidance to use ED 71 as the default standard is also more in line with what constituents have noted are the underlying drivers of hybrid transactions;
  - (b) Accounting for the entire hybrid transaction under ED 71 in situations where there is no clear evidence of performance obligations would be more consistent with the existing guidance in IPSAS 23; and
  - (c) Allowing the use of ED 71 in situations where clear and objective evidence of performance obligations does not exist alleviates the potential costs of having to perform complex analysis and avoids the need to have more application guidance in the standard. This is because the revised standards will essentially state that if it is not immediately clear that a component relates to performance obligations, the entire transaction is accounted for using ED 71. The revisions would also provide staff the opportunity to address the editorial issues noted in paragraphs 5(c)-5(e).
11. Staff propose that the existing guidance in the proposed standards be revised to reflect the change. If the IPSASB agrees with the recommendations, staff will also update the flowchart in ED 71 to reflect these amendments and present the flowchart at a future meeting.

**Decision Required**

12. Does the IPSASB agree with the Staff recommendation?



## **Existence of a Liability in a Binding Revenue Arrangement without Performance Obligations**

### **Question**

1. Does the IPSASB agree with the staff recommendations below?

### **Recommendations**

2. Based on constituent feedback, staff recommend amending the proposed revenue standard for revenue without performance obligations to:
  - (a) Clarify that upon the recognition of an asset from a binding revenue arrangement, a transfer recipient will either recognize revenue, or defer revenue recognition if a liability is recognized for the present obligation(s) within the arrangement, and that the recognition of a liability is the mechanism for the deferral of revenue;
  - (b) In the context of revenue arrangements without performance obligations, clarify that the recognition of a liability is driven by whether the binding arrangement contains a present obligation arising from a repayment (or return) obligation; and
  - (c) Add Basis for Conclusions to explain the above recommendations and to explicitly clarify that the accounting for revenue will ultimately be driven by the terms of a binding arrangement.

### **Background**

3. As noted in [Agenda Item 5.2.4](#), a binding revenue arrangement will necessarily have at least one or more obligations. These obligations can be performance obligations or more general present obligations.
4. In ED 71, the IPSASB proposed that when a transfer recipient recognizes an asset for an inflow of resources, the transfer recipient considers if a present obligation related to the inflow results in the recognition of a liability. Revenue is recognized except to the extent that a liability is recognized for any unsatisfied present obligations in respect of the same inflow—in other words, revenue recognition is deferred for any unsatisfied present obligation in the revenue arrangement.<sup>23</sup>
5. ED 71 states that a present obligation could arise from a revenue arrangement if the transfer recipient cannot avoid using the resources to fulfill the requirements of the binding arrangement, or in the event of a breach of the binding arrangement, the transfer recipient must repay the resources to the transfer provider or incur some other form of a penalty. ED 71 also states that the transfer recipient shall consider whether an obligation to perform a specified activity or incur an eligible expenditure is a present obligation.<sup>24</sup>
6. In the comment letters received in response to ED 71, a number of constituents noted the following concerns:

*Unclear Basis for Recognizing a Liability*—Some constituents were of the view that specified activities and eligible expenditures, as currently defined in ED 71, do not meet the definition of a present obligation that gives rise to a liability per the IPSASB's Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Conceptual Framework). Others disagreed with the

<sup>23</sup> ED 71, paragraphs 45 and 53.

<sup>24</sup> ED 71, paragraphs 16-17.

notion that a transfer recipient cannot avoid an outflow of resources due to the possibility of incurring some form of fine or penalty in the event of a breach of a binding arrangement. Both of these constituent groups noted that whether a liability exists should be driven only by whether the revenue arrangement contains terms giving rise to an obligation to repay or return resources in the event the terms of the arrangement are not met.

7. The constituents who commented on fines and penalties in paragraph 6 explained that a repayment obligation is distinct and different from a penalty or fine, as such an obligation is part of the original terms of the arrangement and is an indication that a transfer provider wishes to retain control of the resources transferred. In contrast, a fine or penalty only arises as a consequence of breaching the terms of the arrangement and will depend on whether or how a transfer provider wishes to enforce the arrangement. Therefore, a potential fine or penalty does not represent a present obligation that exists upon entering the revenue arrangement.

### **Analysis**

8. Based on the comments above, staff recognize that the current wording in ED 71 led to a lack of clarity over what drives the recognition of a liability. The following paper addresses the basis for the recognition of a liability in a revenue arrangement. Once the IPSASB has concluded on this issue, staff will present a separate paper clarifying specified activities and eligible expenditures at a future meeting.

### ***Unclear Basis for Recognizing a Liability***

9. Upon further reflection of the proposal that revenue is deferred for any liabilities recognized for unsatisfied present obligations and consideration of what drives the recognition of a liability in the Conceptual Framework, staff agree with the view that whether a liability exists should be driven only by whether the revenue arrangement contains terms giving rise to an obligation to repay or return resources in the event the terms of the arrangement are not met.
10. Before explaining the support for the staff's view, it is important to distinguish between a repayment obligation and potential fines and penalties. Based on the reasons noted in paragraph 7 above, staff agree with the constituent view that potential fines and penalties are distinct and different from a return obligation:
  - (a) Potential fines and penalties apply in whole to the overall arrangement and do not give rise to a present obligation upon entering a revenue arrangement. (i.e., in addition to being contingent on breaching the agreement, any potential outflow of resources from a fine or penalty will depend on whether or how the transfer provider decides to enforce the arrangement).
  - (b) In comparison, a repayment obligation generally applies to a specific action (i.e., apply in part to the arrangement), and may also apply to the overall arrangement. Staff agree if a revenue arrangement requires the return or repayment of resources in the event that a specified term(s) of the arrangement is(are) not fulfilled, such a repayment obligation is a present obligation which exists upon entering the arrangement. This is because the obligation to repay the resources arose from the original terms of the arrangement relating to a specific obligation enforced on the transfer recipient and will not depend on the transfer provider's decisions on whether or how to enforce the arrangement. Put another way, once a transfer recipient receives resources under such a revenue arrangement, as long as the specific terms of the arrangement have not yet been fulfilled, the transfer recipient will continue to have a present obligation to

return the resources. Paragraphs 11-19 of this paper will explore whether this view is consistent with existing IPSAS literature and also IFRS.

*Consistency of Revised Proposals with Existing IPSAS Literature*

11. The concepts underlying the recognition of a liability based on the existence of a present obligation has not changed in the Conceptual Framework, which states:

*“A liability is a present obligation of the entity for an outflow of resources that result from a past event... A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid.”<sup>25</sup>*

12. A requirement in a revenue arrangement to return transferred resources to the transfer provider in the event that the terms of the arrangement are not met would be consistent with the above definition of a present obligation because:

- (a) The outflow of resources is the requirement to return the transferred resources in the event that the terms of the revenue arrangement are not met. Note that for a present obligation to exist, this requirement to return the transferred resources must be stated in the terms of the arrangement at the time the arrangement is executed by the parties;
- (b) The past event is the entering of the arrangement and the receipt of resources from the transfer provider. (This is under the assumption that the revenue arrangement is an executory contract); and
- (c) The obligation is binding as it is part of a binding revenue arrangement.

*Consistency with IFRS*

13. Staff also looked to IAS 41, *Agriculture* (IAS 41), and its basis for conclusions for any IASB guidance which may support the above conclusions. While IPSAS 27, *Agriculture*, was drawn primarily from IAS 41, the requirements for government grants relating to biological assets were not carried over to the IPSAS, as IPSAS 23 provided guidance on such grants.
14. IAS 41 contains specific guidance on agricultural grants because if the accounting requirements of IAS 20, *Accounting for Government Grants and Disclosures of Government Assistance* (IAS 20) were applied, the IAS 41 requirement to revalue agriculture assets to fair value would always lead to the immediate recognition of government grants in income, which the IASB concluded was not appropriate.<sup>26</sup>
15. In summary, IAS 41 requires:
- (a) Unconditional government grants to be recognized in profit or loss when, and only when, the government grant becomes receivable; and
  - (b) For conditional grants, the grant is recognized in profit or loss when, and only when the conditions attaching to the government grant are met.<sup>27</sup>

<sup>25</sup> Conceptual Framework, paragraphs 5.14-5.15.

<sup>26</sup> IAS 41, paragraphs B63-B67. Furthermore, the Staff did not look to IAS 20 as that standard was developed by the International Accounting Standards Committee in April 1983 and does not include detailed basis for conclusions explaining the accounting requirements on the recognition of government grants.

<sup>27</sup> IAS 41, paragraphs 34-35. Unlike IPSAS 23, the term “condition” is not defined in IAS 41 and is used in a plain English reading of the word.

Staff provided useful excerpts in [Appendix 6](#).

16. Furthermore, IAS 41 states that a grant is retained by the recipient if or when conditions are met.<sup>28</sup>
17. In their basis for conclusions, the IASB explained that, “until the conditions attached to a government grant are met, a liability should be recognized under the [IASB’s] Framework rather than income since an entity has a present obligation to satisfy the conditions arising from a past event.”<sup>29</sup>
18. The above IFRS guidance is consistent with the staff’s view that a repayment obligation is a present obligation which results in the recognition of a liability.

*Example*

19. To illustrate the above reasoning for why a repayment obligation in a revenue arrangement is a present obligation which gives rise to a liability, the staff developed the following example for the IPSASB’s consideration. This example has been included in [Appendix 7](#).

**Decision Required**

20. Does the IPSASB agree with the Staff recommendations?

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<sup>28</sup> IAS 41, paragraph 36.  
<sup>29</sup> IAS 41, paragraph B72.

## **Appendix 6 – Selected Extracts from IAS 41, Agriculture:**

### **Government grants**

- 34 An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or loss when, and only when, the government grant becomes receivable.
- 35 If a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met.
- 36 Terms and conditions of government grants vary. For example, a grant may require an entity to farm in a particular location for five years and require the entity to return all of the grant if it farms for a period shorter than five years. In this case, the grant is not recognised in profit or loss until the five years have passed. However, if the terms of the grant allow part of it to be retained according to the time that has elapsed, the entity recognises that part in profit or loss as time passes.

### **Government grants**

- B63 The Standard requires that an unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs should be recognised as income when, and only when, the government grant becomes receivable. If a government grant is conditional, including where a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant as income when, and only when, the conditions attaching to the government grant are met.
- B64 The Standard requires a different treatment from IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in the circumstances described above. IAS 20 is to be applied only to government grants related to biological assets measured at cost less any accumulated depreciation and any accumulated impairment losses.
- B65 IAS 20 requires that government grants should not be recognised until there is reasonable assurance that:
- (a) the entity will comply with the conditions attaching to them; and
  - (b) the grants will be received.
- IAS 20 also requires that government grants should be recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. In relation to the presentation of government grants related to assets, IAS 20 permits two methods—setting up a government grant as deferred income or deducting the government grant from the carrying amount of the asset.
- B66 The latter method of presentation—deducting a government grant from the carrying amount of the related asset—is inconsistent with a fair value model in which an asset is measured and presented at its fair *value*. Using the deduction from carrying value approach, an entity would first deduct the government grant from the carrying amount of the related asset and then measure that asset at its fair

value. In effect, an entity would recognise a government grant as income immediately, even for a conditional government grant. This conflicts with the requirement in IAS 20 that government grants should not be recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them.

- B67 Because of the above, the Board concluded that there was a need to deal with government grants related to biological assets measured at their fair value. Some argued that IASB should begin a wider review of IAS 20 rather than provide special rules in individual International Accounting Standards. The Board acknowledged that this might be a more appropriate approach, but concluded that such a review would be beyond the scope of the project on agriculture. Instead, the Board decided to deal with government grants in the Standard, since the Board noted that government grants related to agricultural activity are common in some countries.
- B68 E65 proposed that, if an entity receives a government grant in respect of a biological asset that is measured at its fair value and the grant is unconditional, the entity should recognise the grant as income when the government grant becomes receivable. E65 also proposed that, if a government grant is conditional, the entity should recognise it as income when there is reasonable assurance that the conditions are met.
- B69 The Board noted that, if a government grant is conditional, an entity is likely to have costs and ongoing obligations associated with satisfying the conditions attaching to the government grant. It may be possible that the inflow of economic benefits is much less than the amount of the government grant. Given that possibility, the Board acknowledged that the criterion for recognising income from a conditional government grant in E65, when there is reasonable assurance that the conditions are met, may give rise to income recognition that is inconsistent with the Framework. The Framework indicates that income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease in a liability has arisen that can be measured reliably. The Board also noted that it would inevitably be a subjective decision as to when there is reasonable assurance that the conditions are met and that this subjectivity could lead to inconsistent income recognition.
- B70 The Board considered two alternative approaches:
- (a) an entity should recognise a conditional government grant as income when it is probable that the entity will meet the conditions attaching to the government grant; and
  - (b) an entity should recognise a conditional government grant as income when the entity meets the conditions attaching to the government grant.
- B71 Proponents of approach (a) argue that this approach is generally consistent with the revenue recognition requirements in IAS 18 Revenue.<sup>30</sup> IAS 18 requires that revenue should be recognised, among other things, when it is probable that the economic benefits associated with the transaction will flow to the entity.
- B72 Proponents of approach (b) believe that, until the conditions attaching to the government grant are met, a liability should be recognised under the Framework rather than income since an entity has a present obligation to satisfy the conditions arising from past events. They also argue that income

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<sup>30</sup> IFRS 15 Revenue from Contracts with Customers, issued in May 2014, replaced IAS 18 Revenue.

recognition under approach (a) would still be subjective and inconsistent with the recognition criteria indicated in the Framework.

- B73 The Board concluded that approach (b) is more appropriate. The Board also decided that a government grant that requires an entity not to engage in specified agricultural activity should also be accounted for in the same way as a conditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs.

## **Appendix 7 – Illustrative Example of a Repayment Obligation:**

### **Sample fact pattern:**

- Entity A and Government B enter into a grant agreement on December 30, 2020. Upon entering the agreement, Government B pays a lump sum of cash to Entity A.
- The agreement requires Entity A to perform a specified activity within a year's time. If the activity is not completed by December 30, 2021, the funds have to be returned to Government B.
- Entity A's year-end reporting date is December 31, and the specified activity has not yet been fulfilled on December 31, 2020.
- The grant agreement is a binding arrangement, and there is no indication that the agreement would not be enforced by either party.
- As Government B has already paid the lump sum upon signing of the agreement, it has the enforceable right for Entity A to fulfil the terms of the agreement.
- Entity A fulfills the specified activity in 2021.

### **Analysis:**

At the time when the agreement was executed on December 30, 2020, the facts and circumstances are as follows:

1. The agreement is binding and enforceable;
2. The agreement requires the repayment of the funds if the specified activity has not been completed by December 30, 2021; and
3. The activity has not been completed.

This existing set of facts would mean Entity A has a present obligation to repay the funds, and the existence of this present obligation gives rise to recording a liability on December 30, 2020.

At its December 31, 2020 year-end, Entity A assesses the facts and circumstances existing on reporting date and concludes that the liability continues to be recognized as nothing has changed from the day before—i.e., the agreement still requires repayment if the specified activity is not done by December 30, 2021, and the activity still has yet to be done.

In 2021 when the activity is finally completed, the present obligation will be settled because, in accordance with the terms of the arrangement, the agreement no longer requires repayment of the funds once the specified activity has been performed.



## Revenue Project Plan

### Question

1. Does the IPSASB agree with the proposed revenue project plan?

### Recommendations

2. Staff recommend:
  - (a) Addressing the overarching structure issue in March 2021, along with other key issues identified that impact the consideration and resolution of other issues. The extent of disclosures and other comments on existing guidance will be primarily discussed in June;
  - (b) Using the in-period review sessions, as needed, to close out previously discussed issues; and
  - (c) Revisiting the need, role, and composition of a Task Force in Q2 2021.

### Background

3. The IPSASB received nearly 140 comment letters<sup>31</sup> across the two revenue EDs. Overall, the proposed EDs were well received. Respondents commended the IPSASB for taking on this complex project and developing guidance to address these issues in the public sector.
4. Staff identified four overarching themes based on their high-level analysis. These themes were presented to the IPSASB and the CAG in December 2020: Interrelation between EDs; Application in practice; Extent of disclosures; and Additional guidance. The IPSASB instructed staff to present a detailed project timeline and management plan at the March 2021 meeting.

### Analysis

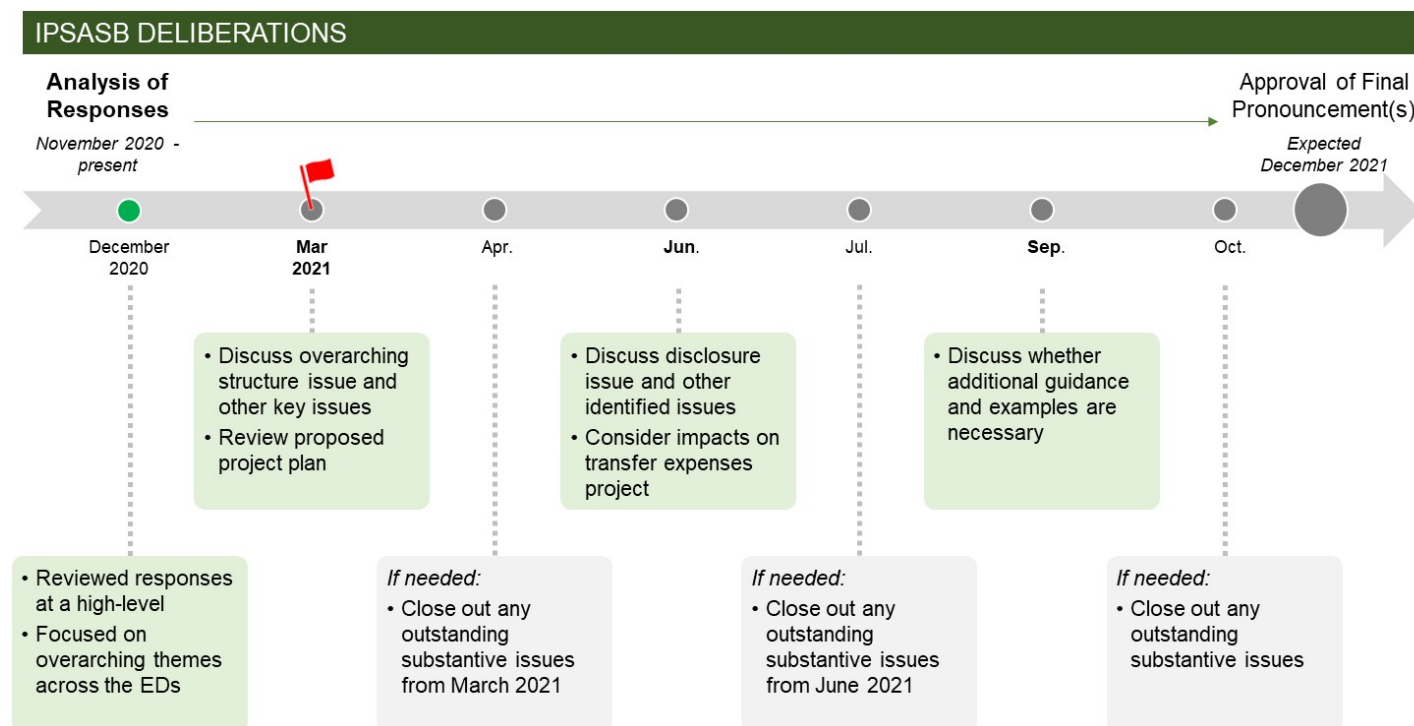
#### *Proposed project plan*

5. As noted in [Agenda Item 5.2.1](#), staff reviewed each comment letter and the substance of individual comments made within each response. The detailed review and strategic overview exercise identified not only the levels of support for the SMCs, but also identified a comprehensive list of key revenue issues, that arose from one or multiple SMCs or from separate comments, that warrant additional analysis<sup>32</sup>. These key issues were also mapped to the four overarching themes presented in December 2020 to help plan and prioritize issue analyses and resolution over the coming months.
6. The proposed project timeline, below, addresses all overarching and key issues and provides an overview of IPSASB deliberations over the coming months. Staff intends to present new substantive issues at each IPSASB meeting for Board discussion, and check-in sessions may be used to close any outstanding substantive issues.

<sup>31</sup> In total, the IPSASB received 73 comment letters for ED 70, and 65 comment letters for ED 71.

<sup>32</sup> See [Agenda Item 5.3.1](#) for ED 70 and [Agenda Item 5.3.2](#) for ED 71 for list of respective SMCs.

## Revenue project timeline:



**Table 1: Identified issues**

# Note 1	Issue	Related overarching themes	Directly linked SMCs	Paper
<b>March-April 2021</b>				
1	Options to Present Proposed Revenue Guidance	• Interrelation between EDs	ED 71 SMC 7	<a href="#">Agenda Item 5.2.3</a>
2	Clarifying Binding Arrangements	• Interrelation between EDs • Additional guidance	ED 70 SMC 1	<a href="#">Agenda Item 5.2.4</a>
3	Distinguishing Revenue from Performance Obligations as a Separate Type of Revenue	• Interrelation between EDs • Application in Practice	ED 70 SMCs 1 and 3	<a href="#">Agenda Item 5.2.5</a>
4	Transactions with Components within the Scope of Both Standards	• Interrelation between EDs • Application in Practice	ED 70 SMC 3	<a href="#">Agenda Item 5.2.6</a>
5	Existence of a Liability in a Binding Revenue Arrangement without Performance Obligations	• Other technical comments	ED 71 SMC 1	<a href="#">Agenda Item 5.2.7</a>
<b>June-July 2021</b>				
6	Revising the Illustrative Flowchart (reflecting Board decisions to date)	• Additional guidance	ED 71 SMC 2	June 2021
7	Accounting for non-contractual receivables	• Other technical comments	ED 71 SMC 5	June 2021
8	Other technical comments	• Other technical comments	n/a	June 2021
9	Reassess existing disclosures and consider any additional disclosures	• Extent of disclosures	ED 70 SMC 4, ED 71 SMC 6	June 2021

# <i>Note 1</i>	Issue	Related overarching themes	Directly linked SMCs	Paper
10	Other practical considerations	• Application in practice	n/a	<i>June 2021</i>
11	Clarify specified activities and eligible expenditures	• Additional guidance • Other technical comments	ED71 SMC 1	<i>June 2021</i>
12	Reassess or clarify existing definitions (e.g., performance obligation, revenue, income)	• Additional guidance	n/a	<i>June 2021</i>
13	Clarify or enhance existing proposed guidance	• Additional guidance	n/a	<i>June 2021</i>
<b>September-October 2021</b>				
14	Add additional guidance	• Additional guidance	n/a	<i>September 2021</i>
15	Consider existing or additional examples	• Additional guidance	n/a	<i>September 2021</i>
16	Appropriate titles of the future IPSAS on revenue	• Interrelation between EDs	n/a	<i>September 2021</i>
17	Amendments to Other IPSAS <sup>33</sup>	• n/a	n/a	<i>September 2021</i>
18	Communications for the Release of the Final Standard(s)	• n/a	n/a	<i>September 2021</i>

*Note 1: The order of papers to be presented at future Board discussions is subject to change based on progress and Board discussions.*

7. Staff proposes to begin some discussions on ED 72, *Transfer Expenses* in April 2021.

#### *Anticipated use of a Task Force*

8. The role of a Task Force during the standard finalization phase differs from the role leading up to a Consultation Paper or Exposure Draft issuance. At this project stage, a Task Force can help the IPSASB progress the project towards final approval in December 2021. Specifically, a Task Force can assist the Board with the implementation and execution of Board decisions.

9. Staff will consider the need and composition of a Task Force in Q2 based on March 2021 discussions.

#### **Decision Required**

10. Does the IPSASB agree with the Staff recommendations?

<sup>33</sup> Review of amendments to other IPSAS will also include review of where the concept of exchange and non-exchange as descriptors in the public sector will reside.

## Supporting Document 1 – ED 70 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?

### 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?

### 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?

### 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?

SMC 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?

## **Supporting Document 2 – ED 71 Specific Matters for Comment (SMC)**

### SMC 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?

### SMC 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?

### SMC 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?

### SMC 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?

### SMC 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?

SMC 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?

SMC 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?