

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: October 28, 2021

Agenda Item 3

For:

☐ Approval

☒ Discussion

☐ Information

REVENUE

Project summary	The aim of the Revenue project is to develop one or more standards that provide recognition and measurement requirements for revenue transactions.	
Drafting Group	<ul style="list-style-type: none"> • Ian Carruthers, IPSASB Chair (Drafting Group Chair) • Todd Beardsworth, IPSASB Member • Lindy Bodewig, IPSASB Member • Lynn Pamment, IPSASB Member • Patricia Siqueira Varela, IPSASB Member • Marc Wermuth, IPSASB Member 	
Meeting objectives Project management	Topic	Agenda Item
	Revenue and Transfer Expenses: Project Roadmap	3.1.1
	Instructions up to Previous Meeting	3.1.2
	Decisions up to Previous Meeting	3.1.3
Decisions required at this meeting	Presenting Revenue Guidance in the Final IPSAS	3.2.1
Other supporting items	n/a	n/a

**REVENUE:
PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
Revenue with Performance Obligations	
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 to March 2021	1. Review Responses 2. Discuss Issues
June 2021-October 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
December 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
March 2021	1. Discuss Issues 2. Develop IPSAS
June 2021	1. Approve IPSAS
Revenue without Performance Obligations	
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

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March 2020 to September 2020	1. Document Out for Comment
December 2020 to March 2021	1. Review Responses 2. Discuss Issues
June 2021-October 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
December 2021	1. Review Responses 2. Discuss Issues 3. Develop IPSAS
March 2021	1. Discuss Issues 2. Develop IPSAS
June 2021	1. Approve IPSAS

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
Revenue		
September 2021	1. Revise authoritative guidance to articulate the principle related to the recognition of a liability (deferred revenue) associated with an entity's (i.e., transfer recipient's) present obligation(s) in a binding arrangement, and ensure non-authoritative guidance clarifies how other liabilities that may arise in a binding arrangement should be accounted for using other IPSAS.	1. In progress
September 2021	2. Consider the identified principle in the context of existing Capital Transfers examples (proposed in ED 71) to confirm that the principle is appropriate, and incorporate additional drafting if necessary.	2. Pending
September 2021	3. Consider how to distinguish the individual present obligations within a binding arrangement.	3. Pending
September 2021	4. Update the existing analysis, to determine whether presentation of revenue guidance as two separate standards remains appropriate based on the Board's decision to first require an entity to consider whether there is a binding arrangement.	4. See Agenda Item 3.2.1
September 2021	5. Ensure the draft IPSAS include clear structure and signposting for ease of use.	5. In progress
June 2021	1. Assess and propose guidance on how the uncertainty of enforcement impacts the measurement of revenue or transfer expenses.	1. In progress
June 2021	2. Provide non-authoritative guidance to clarify that an entity should consider both explicit and implicit consequences in its assessment of the mechanisms of enforceability in a binding arrangement.	2. In progress
April 2021	1. Consider whether the term "present obligation" is appropriate when the binding arrangement is equally unfulfilled, as there would not yet be a binding obligation where there is	1. In progress

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	little or no realistic alternative to avoid outflow of resources.	
March 2021	1. Recommend amended title(s) for the proposed revenue standard(s) when all key decisions have been made in the revenue project.	1. Pending decision on Agenda Item 3.2.1
March 2021	2. Develop the two standalone [draft] revenue IPSAS based on Option 1, subject to a final review after development on whether to maintain the split based on existence of a performance obligation, or to combine them based on the degree of duplication.	2. Pending decision on Agenda Item 3.2.1
March 2021	3. Draft guidance to better articulate that performance obligations also entail a greater specificity, and provides more objective and specific identification, recognition, and measurement of revenue.	3. Drafted – discussion by Drafting Group in progress
March 2021	4. Draft additional Basis for Conclusions paragraphs to address concerns from specific constituents to explain why the IPSASB decided to move away from using exchange and non-exchange as defined terms to classify revenue and to explain that it remains an appropriate concept used to describe the economic substance of such transactions in the public sector.	4. Drafted – discussion by Drafting Group in progress
March 2021	5. Draft guidance to clarify how an entity should account for transactions with components within the scope of the two standards, where it is unclear to appropriately allocate transaction price to components under different standards.	5. In progress
March 2021	6. Clarify the guidance for situations where the satisfaction of a present or performance obligation occurs prior to the receipt of cash and incorporate this guidance in an example on multi-year arrangements.	6. In progress
December 2020	1. Regarding the staff's proposal to revise the disclosures in the three	1. In progress

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	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.	
December 2019	1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations	1. All instructions provided up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
Revenue		
September 2021	1. A transfer recipient recognizes a liability (deferred revenue) in its binding arrangement when it has received resources prior to fulfilling its present obligation(s), and the enforceable terms of the binding arrangement require the entity (i.e., the transfer recipient) to transfer resources to another party if it does not fulfill its present obligations.	1. In progress
September 2021	2. A liability (deferred revenue) is extinguished as the transfer recipient fulfills its present obligations to earn revenue.	2. In progress
September 2021	3. The detailed review of guidance in the draft pronouncements, based on Board decisions for the Revenue and Transfer Expenses projects, be delegated to the Drafting Group.	3. In progress. Basis for Conclusion (BC) pending.
September 2021	4. The guidance in the draft IPSAS based on ED 71 (and ED 72) be reordered to require the entity to consider up front whether the transaction arises without or with a binding arrangement.	4. Incorporated in draft IPSAS based on ED 71. BC pending.
June 2021	1. Retain the definition of a 'binding arrangement' in the Revenue standard(s), as it is conceptually consistent with the definitions elsewhere in IPSAS literature, with the following minor wording revisions: include "for the purposes of this Standard," and "enforceability through legal or equivalent means", and change "both parties" to "the parties".	1. Incorporated in draft IPSAS based on ED 71. BC pending.
June 2021	2. Clarify in the Revenue and Transfer Expenses standards that enforceability is based on the entity's ability to enforce the binding arrangement and uncertainty of enforcement is a measurement issue.	2. Incorporated in draft IPSAS based on ED 71. BC pending.
June 2021	3. Confirm that enforceability is the ability to impose consequences on parties that do not fulfill their agreed-upon obligations in the	3. Incorporated in draft IPSAS based on ED 71. BC pending.

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	binding arrangement, and the guidance proposed in paragraph 21 should be added as Application Guidance.	
June 2021	4. Confirm that the assessment of enforceability of a binding arrangement occurs at inception and when a significant external change indicates that there may be a change in the enforceability of that binding arrangement.	4. Incorporated in draft IPSAS based on ED 71. BC pending.
June 2021	5. Confirm that legal or equivalent means is consistent with 'legal obligation' as described in the Conceptual Framework Chapter 5 and is not 'non-legally binding obligation'	5. Incorporated in draft IPSAS based on ED 71. BC pending.
June 2021	6. Revise the definition of a liability in the IPSASB's Conceptual Framework by replacing 'outflow of resources' with 'transfer of resources' as the revised wording clarifies (i.e., does not substantially change) the underlying concepts.	6. See Conceptual Framework Agenda Item 3.2.7. Also incorporated in draft IPSAS based on ED 71 BC pending.
June 2021	7. Incorporate additional guidance and examples into the Conceptual Framework on 'transfer of resources', as outlined in the Agenda Item, to clarify the ambiguities associated with what entails a 'transfer of resources'	7. See Conceptual Framework Agenda Item 3.2.7.
April 2021	1. Confirm, for revenue, that there is no initial recognition when no party has fulfilled its stated obligations under the binding arrangement, unless the binding arrangement is onerous. Accounting for the binding arrangement begins when the binding arrangement is at least partially fulfilled (i.e., at least one party begins to fulfill one or more of its stated obligations).	1. Incorporated in draft IPSAS based on ED 71. BC pending.
April 2021	2. An entity's right and obligation within a binding arrangement are directly linked and interdependent. When the binding arrangement is wholly unfulfilled, the combined right and obligation constitutes a single asset or liability.	2. See June Agenda Items 6.2.1 and 6.3.1. Final BC reference pending
March 2021	1. Revise the title(s) of the proposed revenue standard(s) to reflect the nature of revenue transactions in the public sector.	1. In progress

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March 2021	2. For the time being, continue to present revenue guidance as two separate standards with the standard based on ED 71, <i>Revenue without Performance Obligations</i> first (i.e., Option 1).	2. In progress – pending decision on Agenda Item 3.2.1
March 2021	3. Retain the concept of a binding arrangement as a fundamental concept for revenue accounting, and that the existence of rights and obligations within, and enforceability of, a binding arrangement mean that it contains at least one present obligation.	3. June Agenda Items 6.2.1 and 6.3.1 are incorporated in draft IPSAS based on ED 71. Final BC reference pending.
March 2021	4. Adopt the principle that enforceability of a binding arrangement can arise from various mechanisms, so long as the mechanism(s) provide the entity with the ability to enforce the binding arrangement and hold the parties accountable to the satisfaction of stipulated obligations.	4. June Agenda Items 6.2.1 and 6.3.1 are incorporated in draft IPSAS based on ED 71. Final BC reference pending.
March 2021	5. Highlight that an entity should assess all relevant factors at the transaction date to determine whether an arrangement is enforceable.	5. June Agenda Items 6.2.1 and 6.3.1 are incorporated in draft IPSAS based on ED 71. Final BC reference pending.
March 2021	6. Retain revenue from performance obligations as a separate type of revenue.	6. Drafted – discussion by Drafting Group in progress
March 2021	7. Highlight that performance obligations are a subset of present obligations that embody a specific transfer of a distinct good or service to a purchaser or third-party beneficiary.	7. Drafted – discussion by Drafting Group in progress
March 2021	8. Revise existing Application Guidance to state that, 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) relating to the transfer of distinct goods or services in accordance with ED 70, <i>Revenue with Performance Obligations</i> then use ED 71 to account for any remaining component(s). If the portion is	8. In progress

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	unclear, account for the entire transaction in accordance with ED 71.	
March 2021	9. Highlight that enforceability in a binding arrangement gives rise to a liability (deferred revenue) for the transfer recipient to the extent that the terms of the arrangement are not yet satisfied.	9. Decision will be addressed concurrently with September Agenda Item 4.2.1
March 2021	10. Proceed with the proposed revenue project plan, use in-period review sessions as needed, and revisit the need, role, and composition of a Task Force in Q2 2021.	10. Drafting Group established (see September Agenda Item 4.2.5)
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. In progress
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. In progress
December 2019	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations	1. All decisions made up until December 2019 were reflected in the Exposure Draft (ED) 70, Revenue with Performance Obligations and Exposure Draft (ED) 71, Revenue without Performance Obligations

Presenting Revenue Guidance in the Final IPSAS

Question

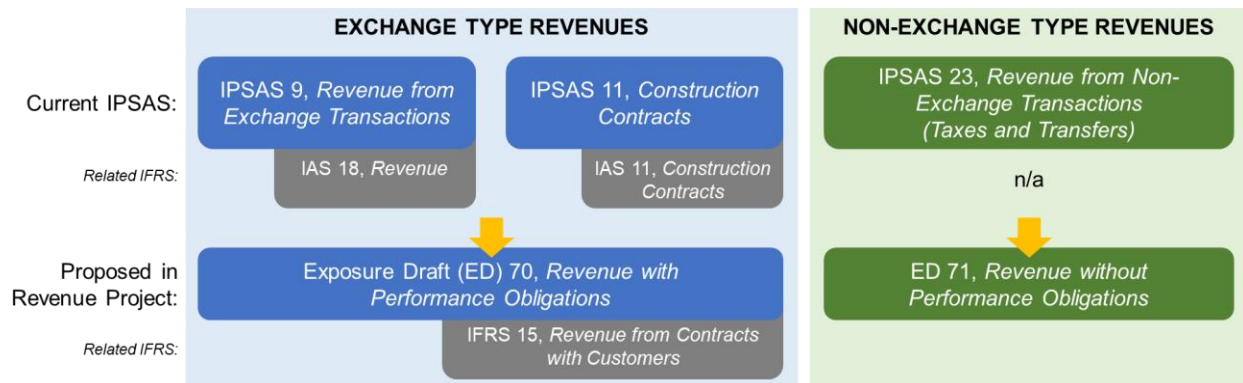
- Does the IPSASB agree to present revenue guidance in a single IPSAS?

Recommendation

- Staff recommend presenting revenue guidance in a single IPSAS, with clear section titles and references to highlight the applicable guidance for specific types of revenue.

Background

- There are currently three IPSAS related to revenue. Two standards are primarily drawn from IFRS (IPSAS 9, *Revenue from Exchange Transactions* and IPSAS 11, *Construction Contracts*), whereas the third standard (IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*) was developed to provide guidance on how to account for non-exchange type revenue transactions, which are a large proportion of public sector revenue:



- At the beginning of this Revenue project, the IPSASB intended to replace the two IPSAS related to exchange-type revenues with an IPSAS primarily based on IFRS 15¹. In other words, guidance on exchange-type revenue transactions would be in a single IPSAS. Consequently, non-exchange type revenue transactions (previously covered in IPSAS 23) would continue to be in a separate IPSAS. This approach enabled the IPSASB to explicitly demonstrate alignment with IFRS and maintain the existing allocation of guidance for different revenue transaction types and resulted in two revenue EDs (noted above).
- ED respondents noted that it was difficult to determine the applicable ED for their revenue transactions and stated a need for further consideration of the nature of revenues in the public sector. This lack of clarity on the interrelation between the EDs was further highlighted by concerns about the complexity and impracticality of implementing the proposed standards. Based on a review of constituent responses and CAG member advice, the IPSASB decided in [March 2021](#) to continue presenting revenue guidance as two separate standards, with the standard based on ED 71 first, subject to further review as the project progresses.

¹ IPSAS 9 and IPSAS 11 were developed from IAS 18, *Revenue* and IAS 11, *Construction Contracts*, respectively. IFRS 15, *Revenue from Contracts with Customers* replaced IAS 18 and IAS 11, therefore, the IPSASB decided to update the related IPSAS to maintain alignment with IFRS.

6. The IPSASB has since continued to refine and clarify key principles in revenue accounting through its discussions. In [September 2021](#), the IPSASB instructed staff to provide additional analysis to assist the Board in deciding whether to structure revenue guidance as a single standard, or as two separate standards. This analysis should build on the Board's decision that an entity should first consider whether there is a binding arrangement, along with other decisions to date.

Analysis

Considering Key Decisions on Revenue Accounting Principles

7. The IPSASB discussed principle-related issues raised by constituents in-depth and have made several key decisions. The following decisions are relevant for this analysis:
- (a) **Guidance should consider the prevalence of revenue types in the public sector** – Public sector entities engage in various types of revenue transactions, of which a majority are expected to be considered (1) transactions without binding arrangements, or (2) transactions with binding arrangements without performance obligations. This acknowledgement is reflected in the IPSASB's decisions to revise the ordering of revenue guidance.
 - (b) **Binding arrangement is a fundamental concept** – The IPSASB refined the definition of a binding arrangement and decided to reorder guidance to first require the entity to consider whether the transaction arises without or with a binding arrangement.
 - (c) **Enforceability of a binding arrangement holds the involved parties accountable to fulfilling their obligations** – Binding arrangements are, by definition, enforceable. Enforceability is integral to the concept of a binding arrangement (as it is the mechanism which makes an arrangement binding) and is a consideration in determining whether a transfer recipient has a liability in the binding arrangement.
 - (d) **Performance obligations are a subset of present obligations** – Constituents agreed there are separate types of revenue transactions but sought clarity on the distinction. Performance obligations are a subset of present obligations, that embody a specific transfer of a distinct good or service to a purchaser or third-party beneficiary. While the fundamental accounting principles are consistent, additional considerations are required for performance obligations to better reflect the exchange-type nature and higher level of specificity for performance obligations which may lead to different accounting results.

See additional details and references to related Agenda Items in [Appendix 1](#).

8. These IPSASB decisions indicate that continuing with a two-standard approach with the existing delineation (revenue without performance obligations (ED 71) and revenue with performance obligations (ED 70)) may no longer be appropriate:
- (a) While the IPSASB acknowledges the difference in economic substance between these revenue types, Board deliberations (and constituent comment letters) clearly indicate that revenue transactions with performance obligations are expected to be a very small subset of public sector transactions and the binding arrangement concept is of greater importance.
 - (b) Enforceability of binding arrangements necessitates differences in accounting principles to capture the unique nature and risks of transactions with binding arrangements (compared to transactions without binding arrangements).

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9. Considering the IPSASB decisions to date, it is clear the delineation should be changed if revenue guidance continues to be presented as two separate IPSAS. However, staff are of the view that the IPSASB can present revenue guidance as a single IPSAS and have provided an analysis below.

The Ideal Structure of Revenue Guidance

10. Staff considered what the "ideal" structure to present revenue accounting guidance would be from a public sector preparer perspective, based on the IPSASB decisions since the EDs, to help the Board determine the appropriate presentation of guidance.
11. To determine the "ideal" structure from a preparer's perspective, staff considered the implications of each IPSASB decision (details in [Appendix 2](#), Table 1):

IPSASB decision	What structure would best reflect this decision?
Prevalence of revenue types in the public sector	An "ideal" structure would have clear sections for guidance that apply to each type of revenue transaction, where different accounting principles are warranted, with guidance related to the more prevalent revenue types first.
Binding arrangement as a fundamental concept	An "ideal" structure would require an entity to first consider whether their transaction arises without a binding arrangement, or with a binding arrangement, then provide clear signposting for preparers to understand which sections of accounting guidance relate to their transaction.
Enforceability holds parties accountable	An "ideal" structure would emphasize that an entity's ability to hold other parties in the arrangement accountable necessitates different accounting principles for transactions with binding arrangements.
Performance obligations are a subset	An "ideal" structure would describe the distinction, and clearly present additional or different accounting guidance or considerations necessary to appropriately reflect the nature of these exchange-type revenues, where needed.

12. This "ideal" structure of accounting guidance can be presented in two ways: as a single revenue IPSAS (Option A), or as two separate revenue IPSAS with a different delineation (Option B).
13. Staff considered:
- (a) **How IPSASB decisions are reflected under the two Options:** Staff considered how the IPSASB decisions would impact the presentation of revenue guidance under the two Options in [Appendix 2](#), Table 1.
 - (b) **Using existence of a binding arrangement as the delineation between two IPSAS:** Given the arguments in paragraph 8 and the importance of identifying and accounting for transactions with binding arrangements, the existence of a binding arrangement should be used to delineate the guidance (if presented in two separate IPSAS as proposed in Option B).
 - (c) **Alignment with IFRS principles:** Alignment with IFRS exists under both Options but is less explicit than in the current IPSAS or as proposed in ED 70. The IPSASB's review of responses and discussions indicated that maintaining the existing allocation of guidance (to demonstrate alignment with IFRS) did not necessarily create usable and understandable guidance for preparers. Both Options propose revised structures of guidance that better reflects the prevalence of public sector transactions, aligned with IFRS 15 principles and the 5-step model where appropriate, that is not at the detriment of usability.

Assessment of Options

14. The staff view is that the overall flow of the guidance does not differ substantially between the Options. As shown in the [Appendix 2](#) Table 2, the key difference is the location and duplication of certain guidance. Regardless of the Option selected, it is important that the one or two IPSAS be easy to understand and use. Thus, the final standard(s) should have:
- (a) Clear sections and references to direct preparers to the applicable guidance for their specific revenue transaction (regardless of whether it is included in one IPSAS (Option A), or two IPSAS (Option B)); and
 - (b) An updated version of the ED 71 flowchart at the beginning of the IPSAS to highlight the initial analysis required to determine the type of revenue (i.e., is there a binding arrangement, if so, does it include a performance obligation) and where to find the applicable accounting guidance.
15. Staff considered the benefits and drawbacks of presenting guidance as a single IPSAS (Option A) to determine whether separation (Option B) is warranted:

Benefits	Drawbacks
<ul style="list-style-type: none"> Public sector revenue guidance will be in a single IPSAS rather than split across two IPSAS It is easier from a preparer perspective to use a single IPSAS to assess their revenue transaction, and better highlights that public sector revenues may vary by jurisdiction Less duplication of guidance is necessary², and a single IPSAS would be more concise A single standard would remain aligned with IFRS 15 principles Less cross references are needed to clearly communicate the scope of each IPSAS, and where a user can find applicable guidance for a specific transaction 	<ul style="list-style-type: none"> A single IPSAS would be lengthier (compared to a more moderated length if there are two IPSAS, per IPSAS),³ and may be slightly more difficult from usability perspective

16. Thus, staff are of the view that revenue guidance should be presented in a single standard from the public sector perspective. The single IPSAS should clearly use sections, references, and a flowchart to direct preparers to the applicable guidance to account for their specific revenue transaction.

Decision Required

17. Does the IPSASB agree with the staff recommendation?

² Duplication of guidance under Option B would be necessary to establish freestanding standards. Guidance that must be duplicated include, and is not limited to:

- Definitions;
- Guidance to determine whether there is a binding arrangement; and
- Certain guidance on specific transfers that may be without or with binding arrangements.

³ Based on high-level review of guidance in EDs 70-71, staff note that Option B may yield unbalanced IPSAS (in terms of length).

- The IPSAS (without binding arrangements) would likely be short, and the volume of guidance related to objective, scope, definitions, and identifying whether there is a binding arrangement would likely exceed the volume of guidance related to recognition and measurement of revenues without binding arrangements. The authoritative text may be around 200 paragraphs (including duplicated guidance), with minimal non-authoritative text.
- In comparison, the IPSAS (with binding arrangements) will likely still be lengthy due to duplication and significant volume of non-authoritative guidance for revenues with performance obligations (exchange-type transactions). The authoritative text may be 300-400 paragraphs, with a significant volume of non-authoritative text.

Appendix 1 – Key Decisions on Revenue Accounting Principles

The following table provides additional details related to the IPSASB's in-depth discussions on principle related issues raised by constituents in response to the Exposure Drafts, along with related Agenda Items.

IPSASB Decision	Key discussion points	Related Agenda Items
Guidance should consider the prevalence of revenue types in the public sector	Public sector entities engage in various types of revenue transactions, of which a majority are expected to be considered transactions without binding arrangements, or transactions with binding arrangements without performance obligations. This acknowledgement is reflected in the IPSASB's decisions to revise the ordering of revenue guidance. Since accounting principles for transactions without binding arrangements were generally supported by constituents, IPSASB discussions on ED responses have focused on accounting principles for transactions with binding arrangements.	March 2021 Agenda Item 5.2.2
Binding arrangement is a fundamental concept	The concept of a binding arrangement remains fundamental to revenue (and transfer expenses) accounting. The IPSASB refined the definition of a binding arrangement (to emphasize that the parties in the arrangement have both rights and obligations that are enforceable through legal or equivalent means) and decided to reorder guidance in the draft IPSAS based on ED 71 (and ED 72) to first require the entity to consider whether the transaction arises without or with a binding arrangement.	March Agenda Item 5.2.4 April Agenda Item 1.2.2 June Agenda Items 6.2.1 and 6.2.2 September Agenda Item 4.2.6
Enforceability of a binding arrangement holds the involved parties accountable to fulfilling their obligations	Enforceability is integral to the concept of a binding arrangement and is the mechanism which makes an arrangement binding. Put differently, binding arrangements are, by definition in the proposed IPSAS, enforceable. The terms within a binding arrangement would provide sufficient detail on what is being enforced, and how it is enforced. Enforceability is also a key consideration in determining whether a transfer recipient has a liability (or whether a transfer provider has an asset) in the binding arrangement.	March Agenda Item 5.2.4 June Agenda Item 6.2.3 September Agenda Items 4.2.1 and 4.2.2
Performance obligations are a subset of present obligations	The IPSASB acknowledged that constituents generally agreed there are separate types of revenue transactions but sought clarity on the distinction between performance obligations and present obligations. Specifically, performance obligations are a subset of present obligations that embody a specific transfer of a distinct good or service to a purchaser or third-party beneficiary. Both are conceptually "units of account" to determine the distinct components in a binding arrangement as a mechanism to recognize and measure revenue. While the fundamental accounting principles are the same, additional considerations are required for performance obligations to better reflect the exchange-type nature and higher level of specificity for performance obligations which may lead to different accounting results.	March Agenda Item 5.2.5

Appendix 2 – Considering the “Ideal” Structure of Revenue Guidance

Table 1: Staff considered how each of the IPSASB decisions in [Appendix 1](#) informs the “ideal” structure of revenue guidance from a public sector preparer perspective. The following analysis presents how the two Options may present guidance to reflect these decisions.

A) **Option A:** one IPSAS; or

B) **Option B:** two IPSAS (delineated by whether the transaction is (1) without a binding arrangement, or (2) with a binding arrangement).

Decision		What structure would best reflect this decision?	Option A <i>One IPSAS</i>	Option B <i>Two separate IPSAS</i>
Guidance should consider the prevalence of revenue types in the public sector		This decision emphasized the need to reorder guidance, to present guidance related to the more prevalent revenue types first. An “ideal” structure would clearly guide a user to determine (1) whether their revenue arises from a transaction with or without binding arrangement, and (2) which accounting principles apply. The Revenue IPSAS should clearly present separate accounting models for each type of revenue transaction, where different accounting principles are warranted, to help an entity determine the applicable principles to capture the nature of its revenue.	<ul style="list-style-type: none"> • Begin with guidance to determine whether there is a binding arrangement • Provide guidance for revenue without binding arrangement first 	<ul style="list-style-type: none"> • Begin with guidance to determine whether there is a binding arrangement • Provide guidance for revenue without binding arrangement in first IPSAS
Binding arrangement is a fundamental concept		This decision elevated the importance of identifying whether the revenue arises from a transaction with a binding arrangement, which the Board confirmed in September 2021. An “ideal” structure would require an entity to first consider whether their transaction arises without a binding arrangement, or with a binding arrangement, then provide clear references or signposting for a user to understand which sections of accounting guidance relate to their transaction.	<ul style="list-style-type: none"> • Provide guidance for revenue with binding arrangements in the subsequent section 	<ul style="list-style-type: none"> • Provide signpost to guidance for revenue with binding arrangements in second IPSAS
Enforceability of a binding arrangement holds parties accountable		This decision is only relevant for accounting principles that apply to revenue transactions with a binding arrangement. An “ideal” structure would emphasize that an entity’s ability to hold other parties in the arrangement accountable necessitates separate accounting principles for transactions with binding arrangements. Put differently, the enforceability of binding arrangements is the key driver for having different accounting principles to capture the different nature and risks of transactions with binding arrangements (compared to transactions without binding arrangements) and should be clearly presented in the guidance in conjunction with the above decision.		

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Decision	What structure would best reflect this decision?	Option A <i>One IPSAS</i>	Option B <i>Two separate IPSAS</i>
Performance obligations are a subset of present obligations	<p>This decision is only relevant for accounting principles that apply to certain revenue transactions with a binding arrangement, and highlights that performance obligations, which are exchange-type transactions, have a greater specificity and clearer transfer of control.</p> <p>While accounting principles that apply to revenue transactions with present obligations (without performance obligations) equally apply to revenue transactions with performance obligations, the unique attributes of performance obligations inform on the specific timing of recognition and measurement of revenue associated with the identified units of account.</p> <p>An “ideal” structure would sufficiently describe the difference in economic substance of performance obligations from present obligations, and highlight any additional considerations (i.e., accounting requirements) necessary to appropriately reflect the nature of these exchange-type revenues.</p>	<p><i>[As part of the ‘revenues with binding arrangement’ section]</i></p> <ul style="list-style-type: none"> Clarify that performance obligations are a subset, in Definitions section Present guidance related to revenues arising from transactions with binding arrangements (i.e., apply to both present obligations and performance obligations) Present any additional guidance related to revenues arising from transactions with binding arrangements with performance obligations (i.e., unique to performance obligations) 	<p><i>[In the second IPSAS, for revenues with binding arrangements]</i></p> <ul style="list-style-type: none"> Clarify that performance obligations are a subset, in Definitions section Present guidance related to revenues arising from transactions with binding arrangements (i.e., apply to both present obligations and performance obligations) Present any additional guidance related to revenues arising from transactions with binding arrangements with performance obligations (i.e., unique to performance obligations)

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Table 2: Staff drafted the expected order and location of guidance under the two Options, for illustrative purposes only. This proposed order of guidance is consistent with past IPSASB decisions.

	Option A	Option B	
	Single IPSAS	IPSAS (without BA)	IPSAS (with BA)
Objective	✓	✓	✓
Scope	✓	✓	✓
Definitions	✓	✓ (some duplication)	✓ (some duplication)
Determining whether the revenue arises from transactions with binding arrangements	✓	✓ (some duplication)	✓ (some duplication)
Revenue arising from transactions <u>without</u> binding arrangements (a) Recognition (b) Measurement (c) Presentation (d) Disclosure (e) [<i>potentially separate section</i>] Application of Principles and Requirements to Specific Transfers	✓	✓ (some duplication for guidance on specific transfers that may be <u>without</u> or <u>with</u> a binding arrangement)	
Revenue arising from transactions <u>with</u> binding arrangements (a) Recognition (i) For all present obligations (i.e., including performance obligations) (ii) Additional considerations for performance obligations (b) Measurement. (i) For all present obligations (i.e., including performance obligations) (ii) Additional considerations for performance obligations (c) Presentation (i) For all present obligations (i.e., including performance obligations) (ii) Additional considerations for performance obligations (d) Disclosure (i) For all present obligations (i.e., including performance obligations) (ii) Additional considerations for performance obligations (e) [<i>potentially separate section</i>] Application of Principles and Requirements to Specific Transfers	✓		✓ (some duplication for guidance on specific transfers that may be <u>without</u> or <u>with</u> a binding arrangement)