

1 November 2020

Mr Ian Carruthers  
Chairman  
International Public Sector Accounting Standards Board  
529 Fifth Avenue New York, NY 10017 USA  
Via online submission: [www.ipsasb.org](http://www.ipsasb.org)

Dear Ian

## **Joint submission on ED 70 Revenue with Performance Obligations**

As the representatives of over 200,000 professional accountants in Australia, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on ED 70 *Revenue with Performance Obligations* ("ED 70").

We welcome the continuing efforts of the International Public Sector Accounting Standards Board (IPSASB) on its theme of maintaining convergence with International Financial Reporting Standards (IFRS) as set out in its *Proposed Strategy and Work Plan 2019-2023*. We commend the IPSASB for developing these proposals that seek to incorporate IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) into the existing suite of IPSAS. We agree with many of the proposals in ED 70 and provide our comments and recommendations below and in the **Attachment** to assist the IPSASB in its deliberations. We also request that our submission in response to ED 71 *Revenue without Performance Obligations* (ED 71) is read in conjunction with this submission as our comments in that submission have a bearing on the proposals in ED 70.

The Australian equivalent of IFRS 15 (AASB 15) is applicable to both the for-profit and not-for-profit sectors (incorporating the public sector) and is required to be applied by the not-for-profit sector for accounting periods commencing on or after 1 January 2019. To accommodate the reporting needs of the not-for-profit sector, the Australian Accounting Standards Board (AASB) developed implementation guidance (Appendix F to AASB 15) for not-for-profit entities. We suggest the IPSASB considers the implementation guidance set out in Appendix F to AASB 15 in further developing the proposals in ED 70.

The **Attachment** to this letter contains our responses to the specific questions raised in ED 70 and we have focused our feedback on selected key areas. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Amir Ghandar (CA ANZ) at [amir.ghandar@charteredaccountantsanz.com](mailto:amir.ghandar@charteredaccountantsanz.com) or Ram Subramanian (CPA Australia) at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Yours sincerely

### **Simon Grant FCA**

Group Executive – Advocacy, Professional Standing and International Development  
Chartered Accountants Australia and New Zealand

### **Gary Pflugrath CPA**

Executive General Manager, Policy and Advocacy  
CPA Australia

## Attachment

### Specific Matter for Comment 1

This Exposure Draft is based on IFRS 15, *Revenue from Contracts with Customers*. Because in some jurisdictions public sector entities may not have the power to enter into legal contracts, the IPSASB decided that the scope of this Exposure Draft would be based around binding arrangements. Binding arrangements have been defined as conferring both enforceable rights and obligations on both parties to the arrangement.

Do you agree that the scope of this Exposure Draft is clear? If not, what changes to the scope of the Exposure Draft or the definition of binding arrangements would you make?

### The Scope of ED 70

We agree with the scope of ED 70, subject to some simplification and amendment suggestions set out below:

#### **Definition of revenue**

We appreciate the complexity that arises from the need to scope out various standards (ED 70, paragraph 3), but suggest that some simplification could be achieved through updating the definition of “revenue”. We note that the IPSAS 9 *Revenue from Exchange Transactions* definition of “revenue” has been brought across unchanged into ED 70. When the IASB defined “revenue” in IFRS 15 it did not bring across the definition of “revenue” from the IFRS 15 predecessor (IAS 18) for the reasons set out in the IFRS 15 Basis for Conclusions, paragraph BC29.<sup>1</sup>

We also note that, unlike IFRS 15, ED 70 does not define both “revenue” and “income”. We believe that defining both of these terms may assist with simplifying the scope of ED 70.

#### **Scope exclusions of standards not dealing with revenue from binding arrangements**

Some of the scope exclusions appear to be unnecessary. For instance, IPSAS 32 *Service Concession Arrangements: Grantor* only deals with the grantor’s accounting for service concession arrangements and not the operator’s revenue arising from such arrangements, so it seems unnecessary to scope out IPSAS 32. Although, we recognise that it is not incorrect to say it is scoped out.

We also question the unnecessary scope-exclusion of other standards that do not have a direct impact on revenue recognition arising from a binding arrangement. These include standards that deal with consolidated financial statements, employee benefits and unrealised gains arising from changes in asset values. If the IPSASB believes these standards may have an impact on revenue recognition due to binding arrangements, it would be helpful if the IPSASB could explain its rationale in the Basis for Conclusions.

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<sup>1</sup> The IASB noted that the definition in a previous revenue standard referred to ‘gross inflow of economic benefits’ and it had concerns that some might have misread that reference as implying that an entity should recognise as revenue a prepayment from a customer for goods or services.

### **Interaction between ED 70 and ED 71 relating to material components**

We suggest that paragraph 3(a) be revised so that it is clear to users which requirements should be applied where binding arrangements contain material components that fall within the scope of both ED 70 and ED 71. We believe it is important that users are able to identify the relevant standard(s) to apply, as such arrangements are prevalent in the public sector. We have provided more information on this matter in our response to Specific Matter for Comment 3 below.

### **The Definition of Binding Arrangements**

We believe the definition of binding arrangement is clear, except for the discussion around enforceability. We disagree with paragraph AG24 which states:

*“If past experience with a purchaser indicates that the purchaser never enforces the terms of the arrangement when breaches have occurred, then the entity may conclude that the terms of the arrangement are not substantive, and therefore the arrangement is not enforceable.”*

We believe a binding arrangement does not require a history of enforcement of similar agreements or even an intention of the purchaser to enforce rights. Enforceability depends solely on the purchaser’s capacity to enforce its rights in respect of that specific binding arrangement. We note that AASB 15, paragraph F16 provides useful guidance on this issue and we suggest the IPSASB considers this guidance in further developing the proposals.

We also encourage the IPSASB to consider whether paragraph AG24 is aligned with the Conceptual Framework which states in paragraph 5.19, “The absence of a settlement date does not preclude an obligation giving rise to a liability.” It is unclear how any settlement can be enforced without first having determined a settlement date. Therefore, if a settlement date is absent, there would probably not be a “history of enforcement.”

We suggest the IPSASB considers dealing with legal obligations (Conceptual Framework, paragraphs 5.20-5.22) and non-legally binding obligations (Conceptual Framework, paragraphs 5.23-5.26) separately in this context. We believe that, though legally binding obligations do not need a history of enforcement, it may be possible to consider patterns of past practice with non-legally binding obligations envisaged in paragraphs 5.23-5.26 of the Conceptual Framework.

### **Specific Matter for Comment 2**

**This Exposure Draft has been developed along with [draft] IPSAS [X] (ED 71), *Revenue without Performance Obligations*, and [draft] IPSAS [X] (ED 72), *Transfer Expenses*, because there is an interaction between them. Although there is an interaction between the three Exposure Drafts, the IPSASB decided that even though ED 72 defines transfer expense, ED 70 did not need to define “transfer revenue” or “transfer revenue with performance obligations” to clarify the mirroring relationship between the exposure drafts. The rationale for this decision is set out in paragraphs BC20–BC22.**

**Do you agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations”? If not, why not?**

We agree with the IPSASB’s decision not to define “transfer revenue” or “transfer revenue with performance obligations.” However, as mentioned in our above response to Specific Matter for Comment 1, updating the definition of “revenue” could simplify the scoping of ED 70.

### Specific Matter for Comment 3

Because the IPSASB decided to develop two revenue standards—this Exposure Draft on revenue with performance obligations and ED 71 on revenue without performance obligations—the IPSASB decided to provide guidance about accounting for transactions with components relating to both exposure drafts. The application guidance is set out in paragraphs AG69 and AG70.

#### Do you agree with the application guidance? If not, why not?

Please refer to our submission on ED 71 where we have suggested that the IPSASB should consider developing its proposals in both ED 70 and ED 71 as a combined, single Standard. The following comments are in respect of the proposals in ED 71 being developed as a stand-alone Standard.

In the public sector, binding arrangements can arise that include material components that fall within the scope of both ED 70 and ED 71. We recommend providing further guidance:

- On situations where the presumption can be rebutted that the binding arrangement is wholly related to the transfer of goods or services (ED 70); and
- About disaggregating binding arrangement components where a component of the transaction price that is not related to the performance obligation is material and needs to be accounted for separately under ED 71.

As stated in our cover letter, Appendix F to AASB 15 contains useful implementation guidance for not-for-profit entities. We believe this guidance would be helpful for the IPSASB to consider in developing application guidance on this matter as it includes guidance on assessing material components.

### Specific Matter for Comment 4

The IPSASB decided that this Exposure Draft should include the disclosure requirements that were in IFRS 15. However, the IPSASB acknowledged that those requirements are greater than existing revenue standards.

#### Do you agree that the disclosure requirements should be aligned with those in IFRS 15, and that no disclosure requirements should be removed? If not, why not?

We agree that the disclosure requirements in ED 70 should be aligned with those in IFRS 15 and that no disclosure requirements should be removed.

### Specific Matter for Comment 5

In developing this Exposure Draft, the IPSASB noted that some public sector entities may be compelled to enter into binding arrangements to provide goods or services to parties who do not have the ability or intention to pay. As a result, the IPSASB decided to add a disclosure requirement about such transactions in paragraph 120. The rationale for this decision is set out in paragraphs BC38–BC47.

**Do you agree with the decision to add the disclosure requirement in paragraph 120 for disclosure of information on transactions which an entity is compelled to enter into by legislation or other governmental policy decisions? If not, why not?**

We agree with the additional disclosures proposed in paragraph 120 of ED 70.

### **Other Comments on the proposals in ED 70**

#### **Terminology: “Promises” in Binding Arrangements with Purchasers**

ED 70 states in paragraph 23 that:

*“A binding arrangement with a purchaser generally explicitly states the goods or services that an entity promises to transfer to a purchaser or third-party beneficiary.”*

The term “promises” may be difficult to interpret in the public sector. A public sector entity does not always promise goods or services but is often compelled to commit to performance obligations by virtue of binding arrangements. For example, the Basis for Conclusions to the Conceptual Framework states (in BC 5.26) that:

*“Performance obligations are often not explicitly stated in a contract or arrangement. Not all performance obligations are explicit. For example, a statutory requirement may give rise to an implicit performance obligation of a public sector entity that is additional to the terms of an agreement or contract.”*

As another example, one of the standards that ED 70 seeks to replace is IPSAS 11 *Construction Contracts*. We can therefore assume that the term “binding arrangements” being dealt with in ED 70 includes binding arrangements dealt with under the extant IPSAS 11. IPSAS 11 states in paragraph 7 about such binding arrangements:

*“Binding arrangements could include (but are not limited to) a ministerial direction, a cabinet decision, a legislative direction (such as an Act of Parliament), or a memorandum of understanding.”*

When considering the definition, we note that a binding arrangement is “an arrangement that *confers* both enforceable rights and obligations on both parties to the arrangement” (emphasis added). Therefore, an entity is committed to obligations in a binding arrangement (not necessarily by “promises” but by conferral).

We suggest using a term in ED 70 such as “commits” instead of “promises” which may assist with practical application in the public sector when identifying performance obligations in a binding arrangement.

## Terminology: “Agent” and “Principal” vs “Grantor” and “Operator”

Given the comprehensive guidance on principal versus agent considerations in ED 70, it may be helpful to clarify whether this relationship includes or excludes service concession arrangements, i.e. “operator” and “grantor” relationships that fall under IPSAS 32. This would also assist in clarifying whether accounting for service concession arrangements by grantors under IPSAS 32 is scoped out of ED 70 (as per paragraph 3) and that revenue with performance obligations for operators are scoped within ED 70. Given the increased use of the terms “agent” and “principal” in IPSASB literature, it may be worthwhile considering clarifying the differences between the two sets of terms, i.e. whether grantor/operator arrangements are limited to service concession arrangements.

## Interaction between ED 70 and ED 72

The interaction between ED 70 and ED 72 is challenging to understand. Our stakeholders had difficulty linking the term “purchaser” in ED 70 with the term “transfer provider” in ED 72, and similarly, linking the term “entity” in ED 70 with the term “transfer recipient” in ED 72. Table 1 of the At-a-glance document accompanying ED 70 provides some clarity on these terms and we suggest this information is reproduced in both ED 70 and ED 72:

At-a-glance Table 1 (line 2)	ED 70	ED 72	Proposed accounting
Entity A	“Purchaser” (includes a customer)	“Transfer provider”	Do not account for any revenue in ED 70. <b>Account for transfer expenses in ED 72.</b>
Entity B	“Entity”	“Transfer recipient”	<b>Account for revenue in ED 70.</b> Do not account for transfer expenses in ED 72.

Table 1: Entity A purchases goods or services from Entity B for third-party beneficiaries