



Le Président

Paris, October 20, 2020

Mr Ross Smith
Technical director
International Public Sector Accounting
Standards Board
International Federation of Accountants
277 Wellington Street, 4th floor
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Ontario M5V 3H2 CANADA

Re: Response to Exposure Draft 71, *Revenue without Performance Obligations*

Dear Mr Smith,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Exposure Draft 71, *Revenue without Performance Obligations* published in February 2020 (ED71).

In line with our general comment in our cover letter for ED70, we would appreciate if the Board could communicate further on the improvements that the new approach is deemed to bring over the distinction “with or without exchange” that was the cornerstone of IPSAS 23 *Revenue from Non-Exchange Transactions*. Improvements should show both at conceptual and practical level and we fear that in practice, the new approach might not help preparers reflect faithfully the financial effects of operations in the public sector.

We would also point out that we would disagree with the presentation for receivables if they were to be presented at initial recognition in the statement of financial position at an amount other than face value. This is because we believe that the transparency principle is better met if the statement of financial position shows the face value of the receivables at initial recognition separately from any subsequent impairment. In that sense, we would appreciate if the IPSASB could more explicitly address this presentation issue.

We would also suggest that the number of definitions should not be expanded as we believe that it makes the standard more difficult to read and hence to apply.

Responses to the detailed questions set out in the ED are presented in the appendix.

Yours sincerely,

Michel Prada

APPENDIX

Specific Matter for Comment 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?

We observe that paragraph 14 is fully in line with the description of a present obligation in paragraph 5.15 of the Conceptual Framework. As such, the ED does not introduce anything new on this topic, and we can only concur with the description provided.

We note that this section is particularly sensitive as preparers may use its provisions to help distinguish between a performance obligation (hence apply the proposed provisions in ED70) and a present obligation. We would actually encourage the IPSAS Board to better articulate performance obligation and present obligation that may both exist in binding arrangements. In that sense, for clarity purposes, it could be worth adding a reference to performance obligations at the end of the last sentence in paragraph 15. Additionally, we believe that whether a present obligation exist would depend on facts and circumstances, therefore we would suggest the following changes to the last sentence of paragraph 15:

15. [...] Where binding arrangements with external parties impose terms on the use of transferred assets by the transfer recipient, a present obligation ~~may exist~~, **that is not a performance obligation as defined in [draft] IPSAS [X] (ED 70).**

This would help ascertain under which IPSAS the transaction should be accounted for and it would better articulate both standards. We also find that this would appropriately echo AG25.

As to the distinction between a specified activity and an eligible expenditure, we believe that it is difficult to grasp, all the more that it seems that the accounting treatment is one and the same. As commented above, we think that it is critical that the focus is on the distinction between present obligation and performance obligation which is the backbone of the standard. We feel strongly that introducing a difference between a specified activity and an eligible expenditure might weaken that focus and confuse preparers and users. For the sake of clarity, we would recommend either that that distinction should be

removed or that a real-life example should be incorporated to illustrate eligible expenditure as well as the difference with specified activity.

Should the two notions be retained in the standard, we believe that emphasis should be put on the fact that a specified action has to be “stated in the binding arrangement”.

Finally, we believe that, for clarity purposes, there would be merit in adding specific paragraphs on transfers that would somehow parallel those on taxes in paragraphs 27 to 30. This is because transfers not arising as the result of a binding arrangement and taxes both constitute significant flows specific to the public sector, therefore we would suggest that transfers should be introduced and elaborated on at the same level as taxes are. This would allow for preparers to more clearly delineate those transactions that are arising from binding arrangements from those that are arising from other arrangements, often one-sided.

Lastly, additional paragraphs expanding on transfers could also be usefully tied to paragraphs 7 and 8 dealing with contributions from owners. We believe that this would help users applying judgement to distinguish those inflows that should be accounted for in net assets from those that should be recognised directly as revenue in the period. Actually, in our experience in France, preparers struggle with the distinction, mainly because the private sector notion of owners is remote in the public sector.

Specific Matter for Comment 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?

We find that the inclusion of the diagram is of great help and this matches the qualitative characteristic of understandability.

However, the diagram could better highlight the distinction between transactions without performance obligations that represent the vast majority of revenue in the public sector as clearly stated in paragraph 4, and those with performance obligations addressed in ED70. It appears through the diagram that the Board presumes that there is a hierarchy between performance obligations and present obligations. On the contrary, we believe that those obligations are both on the same level and represent different realities, one being that in transactions specific to the public sector, the absence of performance obligations is more frequent. We note that this implied hierarchy that is not clearly stated in the exposure drafts is confusing for constituents.

For instance, we believe that the diagram would read better if, below the box “Does the transaction arise from a binding arrangement?”, there were two boxes, one asking whether performance obligations exist (and if the answer is “yes” leading to ED70), and the other one asking whether present obligations exist. The flowchart would then clearly show that, on the one hand, binding arrangements need to be analysed for the existence of performance versus present obligations, and on the other hand, transactions that do not arise from binding arrangements entail immediate revenue recognition. In that sense, there wouldn’t be any link between the box “Use ED71 [with reference to] paragraphs 47-50” and the box “Use ED71 to recognise an asset and revenue”. We believe that this modification would help better reflect the public sector reality.

Lastly, for the sake of translation into non English languages, we would appreciate if the IPSAS Board could reconsider using the term “inflow” in the top boxes of the flowchart. We would for instance recommend replacing “inflow” with “transaction” in the first box and with “item” in the second box. Feedback from our constituents is indeed that “inflow” is really a term most likely to be used for recognition in the statement of financial performance.

Specific Matter for Comment 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?

While we understand the reason why there has to be more guidance in ED70, we would encourage the Board to provide further guidance for overtime recognition of revenue from transactions without performance obligation. This is because we believe that it is critical to clearly communicate on the distinction between the accounting for performance obligations and that of present obligations in transactions without performance obligations to ease application in the public sector. And to achieve such clear communication, we believe that guidance on overtime recognition of revenue from transactions without performance obligations should be equally detailed as that of revenue from transactions with performance obligations. As such, preparers would find it useful if the standard could provide criteria to determine whether revenue from eligible expenditure or specified activities should be recognised overtime or at a point in time.

Such further guidance could be easily drawn from paragraph 34 of ED70 with adaptation to present obligations satisfied over time that are not performance obligations. For instance, a sentence could be added to paragraph 57 stating that “The transfer recipient has an enforceable right to payment for the obligation completed to date”. That being noted, we understand that to account for a present obligation

in transactions without performance obligation there is no need to assess the transfer of control of goods or services, hence guidance is necessarily lighter on this very topic.

Lastly, we would wonder whether the last sentence of paragraph 58 is useful.

Specific Matter for Comment 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?

Allocation of the transaction price may not be the step that needs guidance. In contrast, determining the transaction price is probably the most difficult part, especially where a transaction might include a financing component, which may arise in the public sector (see §72-77).

With respect to §72 to 77, there might be a need to address hybrid transactions that would combine transfer for a transfer recipient to perform a present obligation other than a performance obligation and financing as an element of equity.

Lastly, on the same topic, referring to paragraphs 119-120, there might be a need to better articulate the situations with a financing component and those involving concessionary loans, which in some cases may be two different perspectives for one same economic transaction.

Specific Matter for Comment 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?

In France, receivables are initially recognised at face value and are assessed at each reporting date to account for credit risk through impairment. For transparency purposes, we therefore would disagree to requirements that would not allow to show the face value of the receivables in the primary financial statements. We believe that the current proposals would need to be clarified as to the presentation of the gross amount of receivables

Specific Matter for Comment 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?

With respect to disclosures, we note that terms such as transfer recipient's binding arrangement asset/liability (defined in paragraph 10) are only used for disclosure purposes. We believe that too many definitions do not help and contribute to the perception that the standard is complex. It would perhaps be simpler to merely refer to other receivables/assets or liabilities in the disclosure requirements and explain that there is a need to maintain separate labels either on the face of the financial statements or in the breakdown in the notes to the financial statements. In addition, paragraph 125 allows for a different description, which definitely undermines the need for a definition.

We also believe that the definition of transfer recipient's binding arrangement liability, should rather read: "is an entity's **present** obligation to satisfy an **present**-obligation", which is more in line with the general definition of a liability. We would also first and foremost question the need for such a definition.

Specific Matter for Comment 7

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?

The structure is broadly fine, though it may not be immediately apparent that there is a benefit to move from the distinction between exchange and non-exchange transactions to that of with or without performance obligation.

However, with respect to the definition of "capital transfer", we would suggest that the following change may increase clarity as to the difference between with or without performance obligation:

*“A capital transfer is an inflow that arises from a binding arrangement **with a transfer provider**, of cash or another asset with a specification that the transfer recipient acquires or constructs a non-financial asset that will be controlled by the transfer recipient. (Paragraph AG24 provides additional guidance.)”*

We believe that the reference to “transfer provider” would put the emphasis on the fact that capital transfers are transactions without performance obligation, and with no transfer of control of assets.

This addition would also greatly help with the articulation with ED72, *Transfer Expenses*.