

## Swiss Comment to

### ED 71 Revenue without Performance Obligations

Table of Content	Page
<b>1. Introduction.....</b>	<b>1</b>
<b>2. General Remarks.....</b>	<b>1</b>
<b>3. Specific Matter for Comment 1.....</b>	<b>1</b>
<b>4. Specific Matter for Comment 2.....</b>	<b>2</b>
<b>5. Specific Matter for Comment 3.....</b>	<b>2</b>
<b>6. Specific Matter for Comment 4.....</b>	<b>2</b>
<b>7. Specific Matter for Comment 5.....</b>	<b>3</b>
<b>8. Specific Matter for Comment 6.....</b>	<b>3</b>
<b>9. Specific Matter for Comment 7.....</b>	<b>3</b>

## 1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the 26 cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPCP has discussed the ED 71 Revenue without Performance Obligations and comments as follows.

## 2. General Remarks

The SRS-CSPCP considers the distinction between ED 70 and ED 71 to be in part problematic and doubts whether it can be consistently applied in the public sector.

Above all the structure of this ED is problematic. ED 71 contains many Application Guidances (AGs), which are an integral element of the Standard. While the SRS-CSPCP is in principle in agreement with the text of the paragraphs (body) of ED 71, in particular also as far as present obligations are concerned, but in the AGs, the requirements fall back on ED 70. There are many requirements for in-depth analyses in respect of legally enforceable obligations. Thus ED 71 falls back on the duty of obligation of ED 70, although ED 71 explicitly talks of present obligation. There are various contradictions between the Standard itself and the AGs.

Further it is not clearly stated whether or not transfer obligations can be qualified as a present obligation. If they do not fall under the performance obligation approach, because e.g. goods or services are transferred, this should be clearly governed. Transfer contributions are contributions, which the public sector entity has received from another public sector entity (revenue) and passes on in full to third parties (expense).

This is an important element, particularly in countries, which are organized federally and are decentralized, with several levels of government.

The contributions for capital expenditure (grants) are also insufficiently governed, which leaves wide scope for interpretation. This makes life easy for the user, but is not necessarily in the spirit of IPSAS. For example, the SRS-CSPCP wonders whether revenue must be recognized over the useful life of the concerned infrastructure, over the construction phase or according to other criteria. A restrictive treatment of the possibility of recognizing revenue over the entire useful life is desirable.

The SRS-CSPCP is of the opinion that the new Standard should remain principle based and not go into great detail, in particular in order that account can be taken of the various opinions, e.g. about contributions for capital expenditure. Just because of these various opinions about contributions for capital expenditure, the SRS-CSPCP would like additional examples on this.

## 3. Specific Matter for Comment 1

*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?*

The SRS-CSPCP would like legal obligations also to be considered as binding arrangements; it is important that a legal obligation not be considered less binding than a binding (contractual) arrangement.

There is a contradiction between the flowchart of Paragraph 31, Paragraph 47 and AG 10. According to the flowchart and AG 10 a present obligation is possible only if a binding arrangement is given. In Paragraph 47, on the other hand, it is stated that a present obligation may be possible, if there is no binding arrangement. It is therefore not clear whether a present obligation is possible without a binding arrangement. This is an inconsistency, requiring clarification.

A binding arrangement suggests reciprocity or consent of all parties. Legal obligations are, however, unilateral acts, which may result in legal obligations. For such unilateral cases ED 71 would be applied. It would therefore be necessary to clarify how revenue is to be treated, which arises not from a binding arrangement, but from a legal obligation (e.g. land registry revenue, because there is a legal obligation to obtain this administrative service for property transactions).

The expression binding arrangement is therefore not suitable for ED 71; legal obligations are a kind of binding arrangement and they should not be considered as less binding than a mutual arrangement.

#### **4. Specific Matter for Comment 2**

*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?*

The SRS-CSPCP is of the opinion that the flowchart fits better with the text concerning binding arrangements and present obligation.

The comment on SMC 1 is repeated here.

There is a contradiction between the flowchart of Paragraph 31, Paragraph 47 and AG 10. According to the flowchart and AG 10 a present obligation is possible only if a binding arrangement is given. In Paragraph 47, on the other hand, it is stated that a present obligation may be possible, if there is no binding arrangement. It is therefore not clear whether a present obligation is possible without a binding arrangement. This is an inconsistency, requiring clarification.

#### **5. Specific Matter for Comment 3**

*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?*

The SRS-CSPCP notes that the expressions over time and point in time are not defined in this ED. Neither can definition of these expressions be found in the Conceptual Framework. Both derive from IFRS 15 and are given in ED 70. Therefore they are comprehensible to those who would be familiar with ED 70. This is problematic. Thus ED 71 should itself be clear enough that prior reading of ED 70 is not necessary.

The SRS-CSPCP also wonders whether taxes arise over time or at a point in time.

#### **6. Specific Matter for Comment 4**

*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?*

In general, the SRS-CSPCP is of the opinion that the proposed formulation is feasible and sensible, because it is kept general and open. It would, however, prefer if, instead of AGs, examples of transfer price allocation were created.

#### **7. Specific Matter for Comment 5**

*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?*

For the SRS-CSPCP it is not clear whether receivables from revenue without performance obligation should be disclosed as financial instruments or also measured as such per IPSAS 41. According to IPSAS 41 all receivables from the previous IPSAS 23 belong to financial instruments. If the IPSASB foresees a change of practice in this respect, IPSAS 14 should be revised. However, the SRS-CSPCP is of the opinion that all receivables must be treated in the same way; either all as financial instruments or not. In any case in IPSAS 41 reference should be made to IPSAS 23.

#### **8. Specific Matter for Comment 6**

*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?*

The SRS-CSPCP is of the opinion that, as for ED 70, the disclosure requirements go too far. It takes the liberty of repeating the arguments on disclosure of SMC in ED 70.

Quite generally, the SRS-CSPCP is of the view that the disclosure requirements are insufficiently aligned with the needs of a stakeholder of the financial reports in the public sector. Adoption of a Standard from the private sector should mandatorily be adapted to the main needs and the reality of the public sector, i.e. some requirements should also be deliberately omitted. A positive cost-benefit relationship in respect of disclosure should also be observed (that also implies that it should not be necessary for every annual accounts to review all the extensive disclosure requirements as to whether they are material or not). The explicit reference in ED 70.112 and ED 71.130 to materiality in IPSAS 1 strengthens the impression that in the ED for the public sector unnecessary details are demanded.

The disclosure requirements of IFRS 15 are also predominantly of a technical nature. But for the user of the financial reports the substance and possibly the types of transfer payments are important and not the fact that they are revenues treated in accordance with ED 70 or ED 71.

#### **9. 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?*

In principle the SRS-CSPCP welcomes the idea of integrating IPSAS 23. But as already stated in the response to SMC 2 in ED 70, it is somewhat unfortunate that on the revenue side there would be two Standards, whereas on the expense side there would be only one Standard. However, the mirror like illustration is in principle good. The SRS-CSPCP find that in ED 72 there are various types of expense, e.g. those with and those without a performance obligation, with and without present obligation. Whereby certain types of expense with performance obligation are not governed. This is also the case in the private sector where there is no pendant to IFRS 15. Overall the SRS-CSPCP is of the opinion that the expense side with one standard for transfer outlays (with and without performance obligation) is better served than the revenue side, where part of the revenue is governed in ED 70 (with performance obligation) and part in ED 71 (without performance obligation, but with present obligation). Even if symmetry between the timing of recognizing expense and revenue is not ensured, the structure of this ED is acceptable.

Lausanne, September 14, 2020