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Mr. Edwin Ng
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Canada

GAO's Response to the International Public Sector Accounting Standards Board's Exposure Drafts 70, *Revenue with Performance Obligations*; 71, *Revenue without Performance Obligations*; and 72, *Transfer Expenses*

Dear Mr. Ng,

This letter provides GAO's comments on the International Public Sector Accounting Standards Board's (IPSASB) exposure drafts (ED) 70, *Revenue with Performance Obligations*; 71, *Revenue without Performance Obligations*; and 72, *Transfer Expenses*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the IPSASB's efforts to improve its standards and to develop requirements and guidance on topics not currently addressed by existing International Public Sector Accounting Standards. We believe that the proposed standards will generally help public sector entities account for resources they receive and spend through transfers and taxes.

The IPSASB seeks comment on 21 specific matters. Our responses to the matters follow in the enclosures to this letter.

Thank you for the opportunity to comment. If you have questions about this letter or wish to discuss any of our responses, please feel free to contact me at (202) 512-3133 or dalkinj@gao.gov.

James R. Dalkin
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Enclosures – 3

Enclosure I

Responses to Specific Matters for Comment on the International Public Sector Accounting Standards Board's Exposure Draft 70, *Revenue with Performance Obligations*

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?

We believe that the scope of the exposure draft and the definition of binding arrangements are clear for the purposes of applying the proposed standard.

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?

As the draft Exposure Draft (ED) 71, *Revenue with Performance Obligations*, does not contain the term transfer revenue with performance obligations, we do not believe that it is necessary to define that term. While the term transfer revenue is used in draft ED 72, *Revenue without Performance Obligations*, we do not believe that its usage requires the term to be defined.

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?

We believe that the application guidance is useful and appropriate.

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 do not offer a comment on this matter.

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 believe that providing disclosure concerning requirements to satisfy a performance obligation regardless of a purchaser's ability or intention to pay is appropriate.

Enclosure II

Responses to Specific Matters for Comment onto the International Public Sector Accounting Standards Board's Exposure Draft 71, *Revenue without Performance Obligations*

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?

We believe that the definitions and descriptions of "specified activity" and "eligible expenditure" capture a significant majority of present obligations.

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?**

We do not offer a response to this matter.

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?

We agree with the IPSASB that transfer recipients should recognize revenue without performance obligations but with present obligations when or as the transfer recipient satisfies the present obligation. However, we believe that additional guidance, such as brief examples or references to other applicable IPSASB statements, could be provided to illustrate when the present obligation is satisfied.

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?

We do not offer a comment on this matter.

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 International Public Sector Accounting Standard 41, *Financial Instruments*? If not, how do you propose receivables be accounted for?**

We believe it is appropriate to treat receivables within the scope of this standard in accordance with the requirements of IPSAS 41, *Financial Instruments*.

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?

We believe that the disclosures made in accordance with the proposed requirements will provide useful information to users of the financial statements.

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?

We do not offer a comment on this matter.

Enclosure III

Responses to Specific Matters for Comment on the International Public Sector Accounting Standards Board's Exposure Draft 72, *Transfer Expenses*

1. **The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4-BC15.**

   Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?

We believe that the scope of the standard and the definition of "transfer expense" are clear.

2. **Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, *Revenue with Performance Obligations,* and ED 71, *Revenue without Performance Obligations?***

   If not, what distinction, if any, would you make?

We believe that distinguishing between transfer expenses with performance obligations and transfer expenses without performance obligations will aid implementation of the final standards covered in Exposure Drafts (ED) 70 and 71.

3. **Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?**

We believe that additional guidance should be provided that clarifies "monitoring the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangements." As written, the standard provides financial reporting entities great latitude in determining what it means to monitor transfer recipient performance obligations, and thus whether to treat the transaction as a transfer expense without performance obligations or a transfer expense with performance obligations.

4. **This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:**
   (a) A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and
   (b) A transfer provider should subsequently recognize and measure the expense as the transfer recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach.

   The rationale for this decision is set out in paragraphs BC 16-BC34.

   Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?

We do not offer a comment on this matter.

5. **If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.**

We do not offer a comment on this matter.

6. **This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:**
   (a) A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and
   (b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up?

   Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?

   If not, how would you recognize and measure transfer expenses without performance obligations?

We agree with the recognition and measurement requirements for transfer expenses without performance obligations.

7. **As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, *Revenue without Performance Obligations*, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue.**

   Do you agree that this lack of symmetry is appropriate? If not, why not?

We do not offer a comment on this matter.

8. **This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal?**

If not, why not? What alternative treatment would you propose?

We believe that the proposal is acceptable. However, for binding arrangements that may last for multiple years, additional guidance may be helpful to identify the current portion of long-term liabilities. We suggest this mirror the treatment of current portions of long-term liabilities.

9. This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*, to the extent that these are appropriate.

Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,
(a) Do you think there are any additional disclosure requirements that should be included?
(b) Are any of the proposed disclosure requirements unnecessary?

We believe that the disclosures made in accordance with the proposed requirements will provide useful information to users of the financial statements.