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Mr. Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario, Canada M5V 3H2

**Comments on
Exposure Draft 71 “Revenue without Performance Obligations”**

Dear Mr. Smith,

The Japanese Institute of Certified Public Accountants (hereafter “JICPA”) highly respects the International Public Sector Accounting Standards Board (hereafter “IPSASB”) for its continuous effort to serve the public interest. We are also pleased to comment on the Exposure Draft 71, *Revenue without Performance Obligations* (hereafter “ED”). Our comments to ED 71 are as follows.

General comments

1. Improvement of illustrative examples and guidance

The concepts of “present obligation,” “eligible expenditure,” “specified activity,” are unique to IPSASB. As we assume that the public sector entities around the world are engaged in a wide range of practices, we ask that more illustrative examples and guidance are provided to enhance the understandability of users.

2. The distinction between performance obligation and present obligation

The verb “to perform” frequently appears in the paragraphs describing present obligation (e.g. paragraphs, 17, 18, 43, and 47). When we translate them into Japanese, we are confused with “performance obligation” despite these paragraphs are prescribing a present obligation. Therefore, in order to clarify and distinguish between the two types of obligations, we request that the verb “to perform” be replaced by “to satisfy” or “to fulfill.”

Despite At a Glance of ED71 includes a diagram on “present obligations” of ED 71 and “performance obligations” of ED 70, the relationship illustrated by the diagram is unclear from the descriptions in ED

70 and ED 71. We request the IPSASB to clarify that the “present obligations” of ED 71 encompass the “performance obligations” of ED 70.

3. Capital transfer

(a) Present obligations and depreciation

ED 71 has not adopted the approach of the International Accounting Standards (IAS) 20. In other words, IPSASB has not adopted the accounting treatment where grants are only recognized in profit or loss as deferred income is amortized or as the related asset is depreciated.

Under ED 71, revenue is recognized at the time the present obligations of the grants are fulfilled (or as they are fulfilled) (BC23). In cases where the transfer provider specifies that the non-financial asset constructed using the grant is used according to the project plan, it may be appropriate to measure the fulfillment of present obligations (which form the basis for the amount of revenue recognition) according to the depreciation of the assets, which would normally reflect the use of the non-financial asset. We believe that this point should be added to the AG or other sections.

(b) Clarification that capital transfer is a present obligation

Deferred revenue (deferred inflow) is not defined as an element in the *IPSASB's Conceptual Framework* (hereinafter “*Conceptual Framework*”) but the *Conceptual Framework* allows the recognition of specified economic phenomena in the financial statements that do not meet the definition of a liability as “Other obligations” (*Conceptual Framework* BC5.55 and BC5.56).

On this point, we request the IPSASB to explain that capital transfer is a “present obligation” in ED 71 but not an “Other obligation” in the *Conceptual Framework* in AG or other sections.

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?

Comment:

We partially agree, but would like to add following comments.

(a) Illustrative examples of eligible expenditure

We believe that eligible expenditures are those expenditures that should satisfy the criteria stipulated in the binding arrangement. AG25 states that expenditures incurred in the overseas marketing activities of a university as an example of eligible expenditures. We request clarification of this description, as we assume that extravagant expenditures should not be recognized as eligible expenditures, even if they were incurred in the course of marketing activities.

(b) The degree of specificity of “specified activities”

We request the clarification and examples of the “degree of specificity” of specified activities which would be useful in determining whether a present obligation exists.

(c) The term “present obligation”

The term “present obligation” is used in the definition of a liability in the *Conceptual Framework*. Meanwhile, paragraph 14 of ED 71 also provides an explanation on “present obligation” and the same term is defined both in relation to the *Conceptual Framework* and the standard.

To avoid confusion of the reader, we request the IPSASB to clarify that the term “present obligation” in ED 71 is used in a more limited sense (standard level) than in the present obligation in the *Conceptual Framework*.

Specific Matter for Comment 2 : (Paragraphs 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?

Comment:

We partially agree, but would like to add following comments.

(a) Removal of standards outside of the scope of application

The question, “Does the inflow result from a contribution from owners?” should be changed to “Does the inflow result from transactions within the scope of other standards listed in the scope section (paragraphs 3 through 9) of ED 71, except for transactions with performance obligations?” This is because inflows may arise from lease transactions, financial instruments, and other transactions, and unless this branch is made to exclude such transactions, the flowchart cannot be recognized as covering all conditions.

(b) The analyzing order of obligations

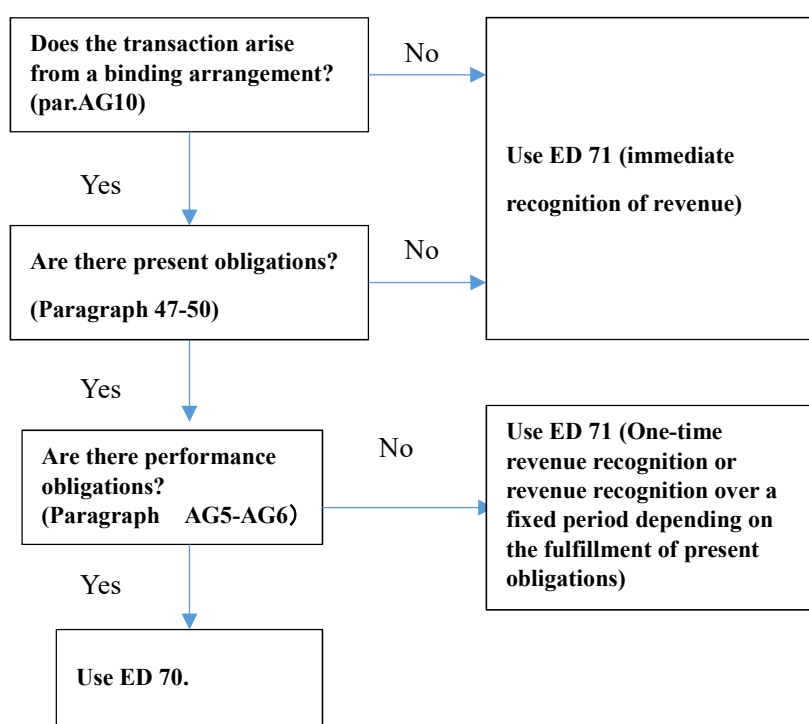
In the analyzing order of obligations in the flowchart of ED 71, performance obligations come first, followed by present obligations. However, as the definition of a present obligation is broader than that of a performance obligation, we propose changing the flowchart so that the present obligation is analyzed first, followed by the performance obligation.

Additionally, while this flowchart is included in ED 71, given that many users will use ED 70 first, we believe that especially the analysis of initial inflow(paragraph 31 of ED71) should be included in both ED 70, *Revenue with Performance Obligations* and ED 71, or in exclusively in ED 70.

(c) Proposal to simplify the flowchart

If this flowchart is to serve as guidance for considering which standard (ED) to apply, we believe it would be beneficial to simplify the analyzing flow after the binding arrangement, as shown below.

[The flowchart as guidance to consider which standard to apply]



Specific Matter for Comment 3 : (Paragraphs 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?

Comment:

We agree.

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?

Comment:

We agree.

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 IPSAS41, *Financial Instruments*? If not, how do you propose receivables be accounted for?

Comment:

We agree.

However, as paragraphs 84 and 85 are within the scope of IPSAS 41 but out of the scope of ED 71 (ED 71, paragraph 3. (g)), it should suffice by deleting paragraphs 84 and 85 or by including a note referring to IPSAS 41.

If paragraphs 84 and 85 are to be retained, the following matters should be considered.

ED 71, paragraph 84. (b) stipulates that a receivable not in the scope of IPSAS 41 is subsequently measured on the same basis as a financial asset at amortized cost in accordance with IPSAS 41.

Receivables that do not meet the definition of a financial asset of IPSAS 41, paragraph 40 do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount and cannot be measured at amortized cost, thus making such measurements impractical.

Additionally, regarding receivables arising as a result of revenue recognition from present obligations, illustrative examples of receivables that do not meet the definition of financial assets of IPSAS 41 should be explained.

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?

Comment:

We partially agree, but would like to add following comments. We concern from the standpoint of (a) understandability, and (b) the burden on the preparers of financial statements.

(a) Understandability

Notes should be disclosed as a detailed breakdown of the financial statements. For example, the random placement of disclosures regarding revenues in the financial statements based on ED 70 and disclosures based on ED 71 could interfere with the understandability of the users of financial statements.

(b) Burden on the preparers of financial statements

Similar and highly-relevant disclosure requirements are described across the standards for revenue with performance obligations (ED 70) and the standards for transfer expenses (ED 72), which may pose a significant burden on users who read these provisions and apply them in practice.

(c) Our request

In light of the above concerns, we request that the provisions are presented in the simplest form . For example, referring to IPSASs on financial instruments which separate recognition/measurement standards (IPSAS 41) and presentation/disclosure requirements (IPSAS 28 and 30), the IPSASB could integrate a set of disclosure requirements. If these systematic changes are difficult, we propose the addition of a comparison table of disclosure requirements (*table below) to the IG section..

(d) Supporting examples to the above comments

As compelling grounds for the need to integrate the disclosure requirements, we would like to exemplify a certain international agency, which applies IPSASs.

This agency receives contributions from member countries and the funds are transferred to the local Executive Agency (Project execution agency: “third-party beneficiary”). If ED 71 and ED 72 are applied, the receipt of the contributions will need to comply with the disclosure requirements on revenue (ED 71) while at the same time transferred funds should satisfy the disclosure requirements on transfer expenses (ED 72).

We concern that if separate disclosure requirements are applied, the examination of the comprehensiveness of disclosures and maintaining consistency between the disclosure requirements for inflows and outflows will become complicated and impractical, leading to a greater burden on disclosure procedures.

*Proposed comparison table of disclosure requirements (paragraphs)

Item (<i>Explanations are in italics</i>)	IFRS 15	ED 70	ED 71	ED 72
General items	110–112	109–112		127–131
			126–129	(common)
Contracts with customers <ul style="list-style-type: none"> ▪ <i>Distinction between revenue from contracts with customers and other revenue</i> ▪ <i>Distinction between continuing and discontinued operations</i> 	113	113		132
			N/A (Paragraph 140 is applied)	N/A
Revenue recognized from transactions without performance obligations	N/A	N/A		N/A
			140	146
Disaggregation of revenue <i>Revenue is disaggregated by reporting segment as follows:</i> <ul style="list-style-type: none"> ➤ <i>By major geographical region</i> ➤ <i>By type of major goods or service</i> ➤ <i>By timing of revenue recognition</i> ➤ <i>Revenue from contracts with customers and other revenue</i> 	114 and 115	114 and 115		133 and 134
			141 and 142	147 and 148
Contract balances <i>Trade receivables, assets held for sale, contract assets, and contract liabilities</i>	116–118	116–118		135–137
			143 and 145	149
Performance obligations (or present obligations) <i>Explanation of content of the obligation, timing of fulfillment, and policy of revenue recognition by type of goods and services</i>	119	119 and 120		138
			144 and 146	N/A
Transaction price allocated to the remaining obligation	120–122	121–123		139–141
			148–150	N/A
Significant judgments in the application of this standard	123	124		142
			151	152

Item (<i>Explanations are in italics</i>)	IFRS 15	ED 70	ED 71	ED 72
Determination of the timing of satisfaction of the performance obligation	124 and 125	125 and 126		143 and 144
			152 and 153	N/A
Calculation of the amount allocated to the transaction price and performance obligation	126	127		145
			154	N/A
Assets recognized as cost incurred to obtain or perform a contract with a customer	127 and 128	128 and 129		N/A
			N/A	N/A
Practical expedients <i>Expedients related to a significant financing component and incremental costs of obtaining a contract</i>	129	130		153
			N/A	
Disclosure of disaggregated revenue	B87 and B89	AG137 and AG138		160 and 161
			N/A	N/A
Transfer expenses subject to appropriations	N/A	N/A	N/A	150
Transfer expenses where the transfer provider cannot monitor the transfer recipient's satisfaction of performance obligations	N/A	N/A	N/A	151

Specific Matter for Comment 7 : (Paragraphs N/A)

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?

Comment:

We partially agree, but would like to add following comment.

We request improvements in the composition of ED 71.

While ED 70 and ED 72 illustrate five steps as the “public sector performance obligation approach, ED 71 does not present a five-step approach, as it takes over the provisions of IPSAS 23. We request the IPSASB to clarify which steps corresponds to the provisions of ED 71..

Yours sincerely,

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The Japanese Institute of Certified Public Accountants