Responses to IPSASB Exposure Draft 71: Revenue without Performance Obligations
(February2020; Comments due: November1, 2020)

EXPOSURE DRAFT 71

REVENUE WITHOUT PERFORMANCE OBLIGATIONS

The Technical Director

International Public Sector Accounting Standards Board (IPSASB)

International Federation of Accountants

277 Wellington Street West, 6th floor

Toronto, Ontario M5V 3H2 CANADA

Brasília, Brazil

November1st, 2020

Dear Mr. Ross Smith,

The Conselho Federal de Contabilidade (CFC) of Brazil welcomes the opportunity to collaborate with the Exposure Draft 71, Revenue Without Performance Obligations, along with its regional arms - Regional Accounting Councils or Conselhos Regionais de Contabilidade (CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Advisory Board for Public Sector Accounting Standards (GA/NBC TSP) of the CFC.

If you have any questions or require clarification of any matters in this submission, please contact:tecnica@cfc.org.br.

Regards,

Idésio S. Coelho
Technical Vice-President
Conselho Federal de Contabilidade

APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, the Federal District and 5,569municipalities governments. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements.

In this document, we present the contributions for the exposure draft based on a practical approach applicable to our jurisdiction.

In the next section, we present our comments and answers on the specific matters for comment of the exposure draft.

2. Responses to the Specific Matters for Comment and Preliminary Views

Specific Matter for Comment 1: (Paragraphs14-21)

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?

Answer:

GA/CFC agrees that an obligation to perform a specified activity or incur an eligible expenditure is a present obligation, as a result of a past transaction (when the transfer provider and transfer recipient enter into a binding arrangement creating enforceable rights and obligations on both parties), and because it involves an outflow of resources from the entity for it to be settled (which an entity has little or no realistic alternative to avoid and which results in an outflow of resources).

However, a binding arrangement may present other obligations for the transfer recipient not based on specific activities and eligible expenditure that are input-base conditionality. This is because the obligation may be derived from output-based conditionality. For example, the criteria may be the target achievement related to students' performance in evaluation tests or decreasing in the number of hospitalizations due to inadequate quality of primary health care. In the GA/CFC view, the accounting treatment for specific-purpose transfers that requireattaining certain results in service delivery have not been approached in the [draft] IPSAS [X] (ED 71).

Also, specific-purpose transfer may incorporate matching provisions by requiringthe transfer recipient to finance a specified percentage of expenditures using its own resources. In this case, it is necessary to evaluate not only if apresent obligation exists, but also its recognition and measurement criteria.

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?

Answer:

GA/CFC agrees that the flowchart that follows paragraph 31 of [draft] IPSAS [X] (ED 71) provides a helpful and clear illustration of the process, but not for a government as a transfer recipient. The term "transfer recipient" looks like it is being used in an inappropriate way in the [draft] IPSAS [X] (ED 71), because Revenue without performance obligation includes revenues other than derived from transfer, such as taxes.

According to [draft] IPSAS [X] (ED 71), "Transfer is a transaction, other than taxes, in which entity receives a good, service, or other asset from another entity (which may be an individual) without directly providing any good, service, or other asset in return."

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?

Answer:

Despite GA/CFC's agreement with the vision that it is possible to have an enforceable transaction with a present obligation that is not a performance obligation, we have not identified further guidance in [draft] IPSAS [X] (ED 71) illustrating the process when a present obligation is satisfied and when revenue should be recognized.

The paragraph 57 establishes that "A present obligation is satisfied when (or as) the transfer recipient undertakes the specified activities and has no further enforceable duties or acts to perform", and paragraph 58 establishes that "a transfer recipient shall determine at the inception of the binding arrangement whether it satisfies the present obligation over time or satisfies the present obligation at a point in time." The relationship between transfer conditionality (specified activities and eligible expenditures) and time is not clear.

Normally, a transfer recipient is required to present information for the transfer provider about the use of resources in a specified moment of time or over the time according to the terms of the binding arrangement. Based on the information, the transfer providerdecides on the obligation satisfaction. The time itself is not a criterion that defines the obligation satisfaction, but rather when it is verified. For example, after one year, a transfer recipient informs about the use of the resources, so the transfer provider can evaluate if the obligation was satisfied, because the transfer recipient used the resources in eligible expenditures.

In the view of GA/CFC, further guidance is necessary to clarify if the transfer recipientmay consider that an obligation is satisfied, for example, before the obligation is considered satisfied by the transfer provider. Also, in the Example 11 (IE27-IE29), for instance, probably, the transfer recipient will recognize revenue and decrease the liability according to the increase in the number of social housing acquired or constructed and not in accordance with the percentage of resources used. This is because, normally, the binding arrangement specifies the target (conditionality) in terms of the number of social housing.

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?

Answer:

GA/CFC shares the view that, in the context of SMC4, a transfer recipient shall allocate the transaction price to each present obligation identified in the arrangement.

Furthermore, GA/CFC agrees that the guidance in [draft] IPSAS [X] (ED 71) is sufficient and helps to provide clarity of the process of identifying and determining how to allocate the transaction price between different present obligations.

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?

Answer:

In the context of [draft] IPSAS [X] (ED 71), GA/CFC agrees with the proposal to account for receivables in accordance with the requirements of IPSAS 41, Financial Instruments.

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?

SAUS Quadra 5 Bloco J Lote 3 - Ed. CFC
Brasília - DF
CEP: 70070-920
+55 (61) 3314-9600

GA/CFC agrees that the requirements of [draft] IPSAS [X] (ED 71) encompass the main qualitative and quantitative information about revenue without performance obligation, includingits binding arrangements with present obligations, as well as the significant judgments, and changes in the judgments, that an entity must disclose.

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?

Answer:

GA/CFC does not agree thatthe 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.

Initially, in the view of the GA/CFC, it is necessary to clarify that Revenue without Performance Obligation is broader than transfer. Regarding the transfer with present obligation, the accounting treatment is not aligned between transfer provider and transfer recipient. If a present obligation exists to the transfer recipient, probably the right exists to the transfer provider, because the judgment about the enforceability of the present obligation is based on the behaviour and/or the monitoring quality of the transfer provider. So, it is expected that there will be a change in the transfer provider assets (cash to receivable) when the promised resources are transferred, that gives rise to a present obligation in the transfer recipient.

According to AG94 of [draft] IPSAS [X] (ED 72), the transfer provider does not recognize an asset as it does not have an enforceable right to the return of the resources. If it is true, the transfer recipient does not have an enforceable present obligation; consequently, no liability should be recognized. Considering that until the time as there is a breach of the terms of binding arrangement, there are no resources that are presently controlled by the transfer provider, the enforceable right (to the transfer provider) and enforceable obligation (to the transfer recipient) give rise where the breach of the terms is verified. Nevertheless, the transfer provider can use monitoring tools with the objective to enforce the transfer recipient to use the resources according to terms of binding arrangements and recognize the expenses when the resources are used in specified activities or eligible expenditures, for example.