

## Swiss Comment to

### ED 70 Revenue with Performance Obligations

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## 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 70 Revenue with Performance Obligations and comments as follows.

## 2. General Remarks

The SRS-CSPCP is in principle positively disposed towards this ED. In particular, it is welcomed that the *performance approach* has been preferred to the *exchange-non-exchange approach*. The incorporation of IFRS 15 is in general seen as positive, because it has proven itself in practice, although the complexity of recording revenue thereby increases. It is pointed out that IFRS 15 and therefore also the new IPSAS Standard require extensive rules for disclosure in the Notes. It is therefore very cost and time intensive. It must be borne in mind that the income of a public sector entity with a performance obligation covered by ED 70 is in amount much less relevant than that without a performance obligation, which is covered by ED 71. Further the SRS-CSPCP points out that the recording of revenue and expense, in particular of contributions, should be recorded symmetrically by donor and beneficiary. By the way, the SRS-CSPCP expressed this wish already in the *Consultation Paper* of August 2017. The SRS-CSPCP would also have preferred that the IPSASB had treated revenue and expense in the same ED.

The SRS-CSPCP would like to draw attention to two possible errors:

1. *Step 5* (Paragraph 30ff) is described before *Step 3* (Paragraph 46ff) and *Step 4* (Paragraph 72).
2. Comparing Paragraph 32 of ED 70 with Paragraph 35 of ED 72 (or also of IFRS 15 – Paragraph 33) it is noticed that the definition of Control has not been taken over in its entirety in ED 70.

This paragraph is included in IFRS 15, but not in ED 70:

“Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from an asset.”

This paragraph is included in ED 72, but not in ED 70:

“Control of an asset, which is defined in (draft) IPSAS (ED 70) refers to the ability of the third-party beneficiary to direct the use of, and obtain substantially all of the remaining benefits or service potential from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the economic benefits or service potential from, an asset.”

The SRS-CSPCP wonders whether these are errors or whether there is a reason for this presentation.

## 3. Specific Matter for Comment 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?  
If not, what changes would you make to the definitions?*

The SRS-CSPCP thinks the framework of this ED is clear. It is also in agreement with the definition of *binding arrangements*.

#### **4. Specific Matter for Comment 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 already mentioned in the General Remarks, the SRS-CSPCP misses a symmetry logic between the recording of Transfer Expenses and Transfer Revenue. A complete Standard should contain the expense **and** revenue side. The SRS-CSPCP points out that in the private sector only one standard regulates revenue. But in the public sector there would be two standards with and the transfer services are also treated in two separate standards.

Further the SRS-CSPCP would welcome use of the expression "Transfer" not only on the expense side but also on the revenue side. Transfer revenue may be with or without a performance obligation. An example: does a canton (one of the states), which receives from the Confederation (central government) a grant for the construction of a university building, have to record it under ED 70 or ED 71? Depending on the conditions or legal form of the university the recognition may differ, although there is always a binding arrangement with the Confederation. If the canton has no other obligation than the construction of the building, the revenue is subject to ED 71. But if the canton has the additional obligation to use this building for students, the revenue is subject to ED 70. However in both cases, it is Transfer Revenue.

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

The SRS-CSPCP is of the opinion that the distinction between revenue with and without a performance obligation is not always clear. This distinction is particularly difficult to draw, when services to third parties are involved. The SRS-CSPCP wishes that the IPSAS Board clearly defines which revenues are covered by ED 70 and which by ED 71 and provides examples.

In practice there are also frequently mixed revenues, that is revenues with and without a performance obligation. The planned Standard foresees that such mixed revenues are recorded in accordance with ED 70, if they cannot be separated. But, because of the 5-step model, the hurdles for recording under ED 70 are high. Furthermore, such mixed revenues are usually intrinsically connected with public sector activities. For this reason, recording in accordance with ED 71 would be preferable.

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

The SRS-CSPCP is of the opinion that the disclosure requirements of ED 70 based on IPSAS 15 are too extensive. For a public sector entity in most cases the revenues under ED 71 far exceed those under ED 70. There is therefore no reason to use the disclosure requirements of ED 70 as a standard.

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 the 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 reader of the accounts the substance and possibly the type of transfer payments matter and not the fact that they are revenues treated in accordance with ED 70 or ED 71.

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

The SRS-CSPCP agrees with this decision. However, the public sector in Switzerland scarcely faces such a scenario.

Lausanne, September 14, 2020