UNITED NATIONS SYSTEM **SYSTEME DES NATIONS UNIES**

Chief Executives Board for Coordination

Conseil des chefs de secrétariat des organismes des Nations Unies pour la coordination

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Comment Letter on Exposure drafts 70, 71 and 72 from United Nations System Task Force on Accounting Standards

Dear Ross,

We very much welcome the opportunity to comment on the above mentioned exposure drafts and I am pleased to respond on behalf of the United Nations System Organizations' Task Force on Accounting Standards with specific comments attached in the spreadsheet. In the spreadsheet the first comments are those of the Task Force representing the member organizations, this is followed by comments of seven member organizations. Appendix A is a listing of our Task Force member organizations and Appendix B is the list of the seven member organizations which provided specific comments attached in the excel spreadsheet.

Overall, we agree with IPSASB's alignment with IFRS15 while modifying the principles to apply to the public sector context as well as the commitment to address issues of IPSAS23 with new standards. Furthermore, we appreciate the introduction of a standard for transfer expenses.

However, there are some areas of concern in the standards that we kindly request to be further developed or clarified with additional examples and guidance. Our detailed comments per specific matter requested for comment is provided attached spreadsheet.

- The suite of standards is complex with concepts which may be difficult to understand by users of the financial statements. It may be challenging for preparers and auditors to consistently apply the proposed requirements compounding the problem yet the resulting accounting, apart from disclosures, is quite straightforward.
- We are concerned that a number of arrangements will be split across the two standards creating additional confusion for the users of the statements as well as creating additional costs exceeding the benefits.

- UN entities, in general, are not acting as purchasers of goods and services alone but do so in wider policy and programmatic context. Especially in the development agencies, characterizing funding flows as transactional purchases by the donor may not be appropriate or accurate even when performance obligations exist.

We further request consideration for the standards to explicitly allow grouping similar arrangements together as a policy option to be accounted for through eligible expenditures incurred rather than through application price to individual deliverables. This would reduce the burden of implementation for a number of entities given large volumes of deliverables involved in our operations.

On behalf of the UN System and our Revenue Working Group, I sincerely thank you and your team for your engagement and openness in discussion. We found the meetings and workshops very beneficial and appreciated by all participants. We look forward to continuing our engagement as the standards evolve.

Kind regards,

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	Matter for Comment	UN System response	IAEA	IOM	UN	UNDP	UNICEF	WIPO
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?	We agree with the proposal that a specified activity and eligible expenditure give rise to present obligations if an arrangement leads to an outflow of resources because transfer recipient can not avoid using those resources either to fulfill the requirements in binding arrangement or in the event of a breach of binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty	Guidance relating to specifically to cases where the specified activity would be performed / eligible expenditure incurred regardless of the binding arrangement (e.g. in terms of the entity's mandate / programme of work, funded by other sources)	IOM of the view that to distinguish between "outflow of resources" relating to a specified activity and eligible expenditure is challenging (paragraphs 19 - 21). IOM considers that a present obligation arises only when the transfer recipient is obligated to return the resources to the provider where and if conditions attached to the binding arrangements are not met.	UNOV/UNODC: We agree with the proposal that a specified activity and eligible expenditure give rise to present obligations if an arrangement leads to an outflow of resources because transfer recipient can not avoid using those resources either to fulfill the requirements in binding arrangement or in the event of a breach of binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty.	We do not agree with the IPSASB's proposals, as outlined in SMC 1. UNDP receives funds in advance of the implementation period for which it expects to incur related expenses and one of the significant implementation issues under the existing standard (IPSAS 23) was on the timing of revenue recognition. However, ED71 does not resolve the issue and appears to be compounding it with new concepts. We do not agree with the IPSASB's position on why, in the absence of a performance obligation, an entity may have a liability (i.e. present obligation) in relation to obligations to carry out specified activities or incur eligible expenditure. We are also concerned about the implications of the proposals in ED 71 for when liabilities should be recognized. We note that specified activities and eligible expenditure as defined in ED71 could be conditions or restrictions in IPSAS 23. However, based on the principals in ED71, we are of the view that ED71 will give rise to an increase in the number of liabilities on our financial statements. The proposals in ED 71 introduce new concepts which require subjective judgements when compared to the those required in applying IPSAS 23 Revenue from Non-Exchange Transactions. These judgments led to an inconsistent application of IPSAS 23 in the UN system and inevitably lead to different outcomes for transactions and events that were similar or substantively the same in nature. Under IPSAS 23 standard, UNDP experienced challenges in distinguishing between exchange and non-exchange transactions, including distinguishing between conditions and restrictions. Such challenges in the application of IPSAS 23 will be replaced with similar issues in distinguishing between binding arrangements with performance obligations, binding arrangements without performance obligations but with present obligations, and arrangements that are not binding which we believe will make it difficult for readers of financial statements to understand. Additional guidance on whether an arrangement includes present obligations be	We agree with the proposal that a specified activity and eligible expenditure give rise to present obligations if an arrangement leads to an outflow of resources because transfer recipient can not avoid using those resources either to fulfill the requirements in binding arrangement or in the event of a breach of binding arrangement, repaying the resources to the transfer provider or incurring some other form of penalty. We have a concern in relation to the practical application of the two concepts.	We agree with the proposals that a specified activity and eligible expenditure give rise to present obligations.
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?		Yes	IOM understands that the Chart reflects that if there is not a binding arrangement, one should refer to ED 71 to recognize an asset and revenue (paragraph 33 and 86). However, presumably if there is no binding arrangement there can be no asset or revenue. Clarification within the Chart would be helpful.	UNOV/UNODC and UNHQ: Agree that sufficient guidance exists in this [draft] Standard to determine when a present obligation is satisfied. ESCAP: Same comment made in ED 70 Subject matter for comment 1 applicable, i.e. to add a step for checking question "Are there performance	Once the proposed standard is revised in light of the concerns raised above, the flowchart would need to be revised accordingly.		We agree that the flowchart clearly illustrates the process. Concerning the lowest square in the flowchart, which provides for the recognition of an asset and liability under ED 71, we would welcome clarification of the presentation of these items in the Statement of Financial Position (specifically where the asset is a receivable balance).
Specific Matter for Comment 3: (Paragraph 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?	Additional examples and end to end example to clarify application of the standards would be welcome.	More examples will be useful. For example, in cases of voluntary contributions derived from multi-year agreements (e.g. matching with eligible expenditure vs when the report is accepted and no refund is due)	There is no definition of present obligation except in paragraphs 14-17. IOM suggests that paragraphs 57-77 should refer to paragraph 52 definition of satisfaction based on outflow.	IPSAS ED 70 provides three criteria for satisfaction of performance obligations. More guidance is required in IPSAS ED 71 on when and how to recognize satisfaction/fulfilment of present obligation for recognition of revenue: - The present obligation is satisfied over time; - The present obligation is satisfied at a point in time. UNOG: Suggest providing examples for point over time using non-profit sector organization receiving multi-year contributions. The ED provides guidance on taking substance over form in cases where transfers are dependent on appropriations being authorized. It would help to also provide guidance for cases when transfers are committed to an amount "up to" a certain level in the binding agreement. ESCAP: The guidance is quite general in high level. It mentioned that revenue is recognized when the recipient satisfies the present obligation by completion of specified activities and has no further enforceable duties or acts to perform. However, there is no listings of the event/scenario/methodology that can be considered as completion of action and satisfaction of present obligation. For UN voluntary contributions where binding agreements with present obligations are formulated with donors in such a way that the specified activities are executed over a specified period of time, goods and services for the	Based on our response to SMC 1, we disagree with SMC 3. There should be further practical guidance to determine when and whether a present obligation is satisfied at a point in time or over time. It is unclear whether preparers can borrow guidance included in ED70. If so, this should be clarified in ED71.	Additional examples are needed as well as examples demonstrating what IPSASB considers to be the key requirements that influence accounting treatement. E.g. we have, what we consider enforcable receivables in general contributions to the organizations activities receivable over multi-year period. Reading the standards this would imply revenue recognition on signing the legal agreement. However, in discussion with staff, application of the standard was that only on receipt of cash can revenue and receivables be recognised. Our view is that results in large volume of resources omitted from our balance sheet. Hence, in addition to additional guidance on areas noted by other agencies, we'd also suggest inclusion of wider consideration of receivable recognition and guidance enforcability of the arrangment by the recipient of the funds and not only the provider of the funds.	Further guidance could be provided to enhance clarity of the principle, including specific examples of performance activities which may be used to demonstrate present obligation satisfaction over time (for example, as eligible expenditure is incurred or as hours of service are completed).
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?	UN system view is that revenue recognition based on eligible expenses incurred is more appropriate in many situations than transaction price appoach. Allowing this approach to be taken where it is appropriate reduces the burden of application of the standard.	Yes	In IOM view, this would necessitate revenue recognition based on individual tasks (present obligations) within an project, rather than based on total expenses recorded for the project (paragraph 80-83) and will pose challenges as to allocation methodology. Additional guidance on allocating the transaction price to each present obligation would be helpful. In addition to addressing the issue of different UN entities might use different allocation methodologies reducing comparability.	UNHQ: IPSAS ED 70 provides enough guidance on how to allocate the transaction price between different performance obligations based on the stand-alone price. However, guidance on how to allocate transaction price is less clear in IPSAS ED 71. If the agreement contains different present obligations for specified activities or eligible expenditure, allocation of transaction price to different present obligations could be very challenging. UNOG: Requesting to provide examples. In what kind of cases would there be a need to allocate based on estimated percentage of the total enforceable obligations satisfied? Normally, there would be some budget/pro-forma estimates that already indicate how the transfers should be broken down.	We do not agree that the guidance is sufficient. Our agreements may contain multiple deliverables and it could be challenging to assign a price to each of these. This may result in the use of different methods to allocate transaction prices and could create inconsistencies in accounting treatment and may diminish comparability of the financial statements within the broader UN system.	Allocation of price to individual elements will be challenging and very costly and we do not consider current proposed guidance is adequate. We also urge the board to consider cost vs benefit of such requirements given we are not discussing commercial transactions. e.g. we do not maintain "price lists" for our activities as we operate in over 150 countries across the world in very different conditions and the costs of vaccinating one child, the total cost, not the cost of the vaccine itself, differs based on country and within the country (rural/urban). Add to this the quantum of our delivery - e.g. we are delivering 3 million polio dozes for children in Venzuela alone. Our vaccinations reach around 45% of world's children under 5 overall.	Further guidance could be provided on appropriate methodolgies for estimating the percentage of total enforcable obligations satisified.
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?	Yes, we agree with subsequent measurements being in line with IPSAS41	Yes	IOM agrees. Short term receivables can be recognized at invoice amount and Long-term receivables will require recognition of impairment, loss allowance provision and discounting.	UNOG: What is the purpose of differentiating 84(a) and (b)? Wouldn't it in either case result in recognition as amortized cost? (in case of non-profits, e.g. UN).	UNDP generally agrees that receivables within the scope of this ED should be subsequently measured in accordance with IPSAS 41.	We agree	We agree with the proposals in paragraphs 84-85, we have already implemented IPSAS 41.
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?	Please refer to comments provided for disclosures for ED70	Yes	Same comment as under ED 70 comment 4. There are too many disclosures required by the ED, which might pose challenges for the reader. This requires also additions to the accounting policies notes. AG 57 indicates a split of revenue from binding arrangement by type (based on present and performance obligations). There is also the requirement for a more detailed table on present obligation liabilities (deferred revenue) which will further expanding the requirements on deferred revenue disclosure note. Considerations should be given to materiality linked to as when required for an entity.	ESCAP, UNOV, UNODC agree. UNHQ: The primary objective of UN Entities is to deliver services as per donor directives. Some disclosure requirements seem to be unnecessary considering possible benefits that financial statements users will receive with costs needed to meet the disclosure requirements. For example, disclosure write up on qualitative and quantitative information about the binding arrangements with present obligations and significant judgements and change in judgements based on binding arrangements would be very difficult for different types of agreements. More guidance is required in ED 71 on these types of disclosure requirements. UNOG: More guidance is required on disclosure of unsigned agreements(by both parties-in the pipeline) as this type of contingent asset does not contribute to the users of the information for decision making - rather it could be misleading in the context of voluntary contributions. Para 144 would need to be illustrated by an example to better understand.	UNDP is of the view that the disclosure requirements may be excessive. The IPSASB should reconsider the disclosure requirements. While disclosures provide information that is relevant for users of the financial statements, too many disclosures may confuse users and dilute the value of those important disclosures. We note that the disclosure requirements in ED 71 relating to binding arrangements with present obligations have been aligned with the disclosure requirements in ED 70, amended as necessary for consistency with the terminology used in ED 71. We are of the view that aligning the disclosures in ED 70 for ED 71 results in disclosure requirements for ED 71 for binding arrangements with present obligations being more detailed than is necessary. It may be useful to assess whether consideration was given to the disclosure requirements in ED 71 in light of the scope of the standard and user information needs. As the disclosures are currently organized, it is difficult to identify which disclosures relate to revenue with present obligations as some of the disclosures are general (with more detailed disclosures following) and some appear to be duplicated (for example, paragraphs 131(b) and 143(a) both require an entity to disclose the amount of receivables recognized at the reporting date.) This means that disclosures for revenue with present obligations occur in a number of paragraphs. Structuring the disclosure requirements (with appropriate headings) to align with the structure of the recognition and measurement requirements in the ED may help locate the relevant		We agree that the disclosure requirements provide sufficient, reliable and relevant information. We do not have any specific comments on the disclsoure requirements.
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?	The concepts are complex and it may be difficult to derive the substance of the standard. We kindly request consideration of combining ED70 and 71 into one standard allowing clearer explanation of aims of differing approach by removing cross references between the two standards.	While differentiating between revenue with and without present obligations makes it easier to initially conclude whether a liability needs to be recognised or not, the emphasis on distinguishing between these two is confusing since the treatment is the same, both cases require revenue to be recognised to the extent that a liability is not recognised. The absence of the present	IOM agree broadly on the structure and principles, but view this as relating mostly to assessed contributions and will require additional accounting policy notes and detailed revenue note relating to arrears. Also would require separation of capital transfer disclosures.	UNOG: There needs to be a clearer distinction of agreements that occur in non-profit sector (NGOs, NPOs, UN, etc.) between ED70 and ED71 using 'complex' cases as examples. Examples and BC sections should be elaborated. ESCAP: The information in the standard is quite overwhelming. The language of standard itself is quite complicated and difficult to absorb the substance of the standard. Should there be no accompanying presentation and explanations to that standards, it is quite challenging to understand what are the main points of the standard.	We believe the ED would benefit from further development. It appears that the recognition and measurement requirements were taken from IPSAS 23 and disclosure and presentation requirements from IFRS 15. We find that there is insufficient guidance on how the principles should be applied in practice, which could be the reason for many areas requiring preparers to make significant judgements. In our view, the ED should aim to reduce, to the extent possible, any unnecessary subjectivity resulting from exercising judgements.		
Other matter for comments [please indicate the specific paragraph or group of paragraphs in the ED]					UNHQ: There are few agreements where donors contribute to multi-donor pool funding and agreements contain high level objectives and broad outcomes. Goods or services in-kind are often described in vague terms. It is difficult to assess and identify in which specific case the resources are to be used in particular way. Once the agreement is within the preview of ED 71, what criteria need to be considered to determine whether it is an arrangement: - With present obligation for specified activity - With present obligation for eligible expenditure - With no present obligation	The proposals in ED 71 require new and subjective judgements as compared to the those required in the application of IPSAS 23 Revenue from Non-Exchange Transactions. ED 71 introduces a fundamental change from one set of principles under the existing IPSAS 23 requirements (i.e. restrictions vs. conditions) to a new set of principles under the ED 71 requirements).	We believe that the standards would benefit from narrowing of scope to commercial in nature transactions for alignment with IFRS 15 and widening of publich sector arrangements avoiding split of transactions and making presentations more meaningful	
Other matter for comments [please indicate the specific					UNHQ: Requesting IPSASB to include one illustration when entity receives annual assessments revenue based on approved budget by General assembly , Executive board or Treaty.	requirements are expressed as clearly as possible, to aid understanding and to lead to a consistent application amongst the entities in the UN System. The principles in ED 70 are derived from those in IFRS 15 Revenue from Contracts with Customers. However, the principles in ED 71 are new and in our view there is insufficient guidance to lead to a consistent application of the requirements. As preparers of financial statements, we envisage significant implementation issues, especially as		
Other matter for comments [please indicate the specific paragraph or group of paragraphs in the ED]					UNHQ and ESCAP: Requesting guidance on arrangements where the funding is first provided by donor as a yearly contribution on an unearmarked basis (no present obligation) and later get earmarked for specific activities, including the cases when multiple donors contribute and later the funding is split/earmarked to various projects (present obligation).			
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