

**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	UNSystem response	FAO	IOM	UN	UNICEF	WIPO
Specific Matter for Comment 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 agree with the scope of the standard	AGREED	IOM agrees with the scope and good limitation. Since there is no standard on other types of expense it provides more flexibility.	Requesting IPSASB to include one illustration when entity transfers money annually based on the entity's appropriations authorized by General Assembly or Executive board.	We agree with the scope and the limitation	We agree that the scope is clear.
Specific Matter for Comment 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 agree with the alignment of transfers expenses with the split in revenue, however, we refer you to our comments on the revenue standards as well.	AGREED	IOM agrees, to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations.	Agreed	As with ED70 and 71, the split is complex and issues existing in revenue standards exists within expense standard as well but we agree with the expenses standard mirroring the revenue	We agree with this proposal.
Specific Matter for Comment 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 are generally in agreement	AGREED	IOM agrees the transaction should be accounted for as a transfer expense without performance obligations, where no monitoring by the transfer provider.	To become a binding arrangement, the transfer provider must monitor the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement. The extent of monitoring the satisfaction of performance obligations throughout the arrangement duration is vague. In common arrangements between UN and IPs, IPs would provide interim (might be annual) and final substantive reports that provide the level of progress of project implementation. Is this sufficient monitoring to be qualified as a binding agreement, or what is the minimum level of monitoring to qualify under transfer expenses with performance obligations?	We agree with the proposal where no performance obligation exists, but disagree with the proposal and rather than requiring monitoring throughout the binding arrangement, linkage is made to return of funds similar to revenue side. The monitoring may happen at the end only when reports received.	We agree with this proposal.
Specific Matter for Comment 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 BC16–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 generally agree with the proposal .	AGREED	IOM agrees with the recognition and measurement requirements for transfer expenses with performance obligations. This would change the financial statements, without changing either the new result or net assets, as related to only grossing up assets and liabilities. However, will require a new and more detailed table for the expenses related to transfers to IOM's direct beneficiaries.	UNHQ: Measurement and recognition of assets and expenses using the public sector performance obligation approach will be challenging. In common arrangements with transfer recipients, both performance obligations and non-performance obligations would exist being correlated. Also providing goods and services to third-party beneficiaries would be part of the whole project, and it would not be easy to determine whether the goods and services are beneficial to third-parties only or both third-parties and the UN. According to PSPOA, transfer expense with performance obligation will be recognized, based on allocated transaction consideration when the obligations are met. Application of the recognition and measurement requirements in recording expenses would be very challenging. UN expenses in general are recorded based on the type of expenses, such as employee benefits, travel expenses, grants out and other transfers, etc. Sub expense categories of grants out and other transfers are also by expense type like staff costs, supplies, travels, contractual services, etc. It is difficult to allocate the	Agreed	We agree with the recognition and measurement requirements.
Specific Matter for Comment 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.		na	This could add a significant amount of accounting work as, for each covered payable, an offsetting asset (deferred payable) must be established pending the performance of the recipient. It would reduce the net expenses to reflect payables not fully performed by a similar amount.	See UNHQ response for SMC 4 above. ESCAP: Since the transfer expenses with performance obligations are applicable under the procurement of distinct goods and services for third parties which is very rare for our operation and most of our operation involve the transfer of resources (providing not distinct goods and services to third parties) for specific activity/incurred eligible expenditures which is not considered as performance obligation, we can't think of any practical difficulties on this.	Current draft standard as worded would result in earlier expense recognition to current practice. We will have slight modifications in practice. There will be much bigger impact and cost on the revenue side	We are aware that organizations with high volumes of transfer expenses with performance obligations may face challenges in monitoring these in accordance with the requirements of the draft standard.
Specific Matter for Comment 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?	We agree with the draft standard measurement basis	AGREED	IOM agrees.	ESCAP: For the transfer expense with present obligation, is it possible to record similar to the way the transfer revenue with the present obligation is recorded? For example, to recognize expense as the eligible expenses are documented to have incurred (through the periodic financial statement from implementing partners/transfer recipients).	We agree with the proposal	We agree with the recognition and measurement requirements.
Specific Matter for Comment 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?		AGREED	IOM noted that paragraph 166 requires a line by line comparison in the initial reporting period and comparative period showing the impact of the implementation of the new standard. In this regard, similar comment as under ED 70-71, that this additional requirement requires a lot of effort without much added value.	ESCAP: We think it is not appropriate, because it deviates the general accounting principle of "matching concept" between income and expenses. (1) In UN, our project activities are carried out with the funding provided by donors for specific activities (Transfer revenue without performance obligation, but with present obligation) which means liability is recognized until the activities are completed and eligible expenses are incurred when we will recognize revenue and reduce the liability. Some part of those activities will be implemented by UN which we don't see any issue as UN expenses will be recorded as goods and services are delivered to UN. But for the activity to be implemented by IP, as soon as we enter into agreement with IP for the transfer expenses without performance obligation, the controls is considered given to IP and expense is recognized. In this case, the expense recognition will be faster than revenue, which will distort the income and expense situation in the statement of financial performance for such contribution funding/grant in ERP (2) Sometimes in the transfer with present obligations, the transfer provider and transfer recipient are within the UN system with different volume of financial statements. As such, this lack of symmetry will leave the gap between the statements of two entities of UN system.	We understand the basis but consider requirements of paragraph 166 to be perhaps too onerous without added value to the users of the statements.	We understand the rationale for this lack of symmetry.
Specific Matter for Comment 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 agree with the proposal.	AGREED		Yes. The para 98-99 provides, the transfer provider an opportunity to consider substance over form in determining whether it has present obligation.		We agree with this proposal.
Specific Matter for Comment 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	We do not consider any additional disclosure requirements are required and request proposed disclosures are re-evaluated from cost vs benefit perspective as to whether all disclosures proposed truly add value	AGREED	IOM does not agree that all the disclosure requirements are appropriate, in addition to mirroring the requirements in ED70 and ED71, in light of the requirements based on IFRS 15 Revenue from Contracts with Customers, which relevant for for-profit organizations. The disclosures requires excessive information and detail that are not that useful for UN entities and its FS readers.	UNHQ: Some disclosure requirements do not seem to be necessary, considering possible benefits that financial statements users will receive in comparison with costs that would be needed to meet the disclosure requirements. For instance, identification of transaction consideration allocated to the transfer recipient's remaining performance obligations and qualitative and quantitative disclosures in para 139 will be challenging. Transfer recipient's performance obligations per para 138 also seems to be excessive disclosure requirement.		We agree that the disclosure requirements provide sufficient, reliable and relevant information. We do not have any specific comments on the disclosure requirements.